Chapter 6: The Priorities

Box: What's it all about?

- Approaches to sequencing the strategy questions
- The pros and cons of different approaches
- How to choose the right approach

You now have the concepts and tools to answer the strategy questions. But, which one do you tackle first? You can start with the first one and proceed through logically – but that can be very time consuming. You need some choices about how to design the strategy development process.

There is no one way in which strategy is developed. It can be created by the corporate CEO, or it can involve many individuals across the organisation. It can be a big, one-off exercise, or evolve as a series of smaller decisions taken over time. It can involve cumulative adjustments to a well-known business, or big bets in areas fraught with uncertainty. It can be made by highly intuitive individuals (who would find a highly structured process frustrating), or by careful analysts using a highly structured process. Given this diversity, it is no surprise that strategy processes do not follow any standard norms. Neither do they always progress through the logical sequence of strategy questions describedearlier.
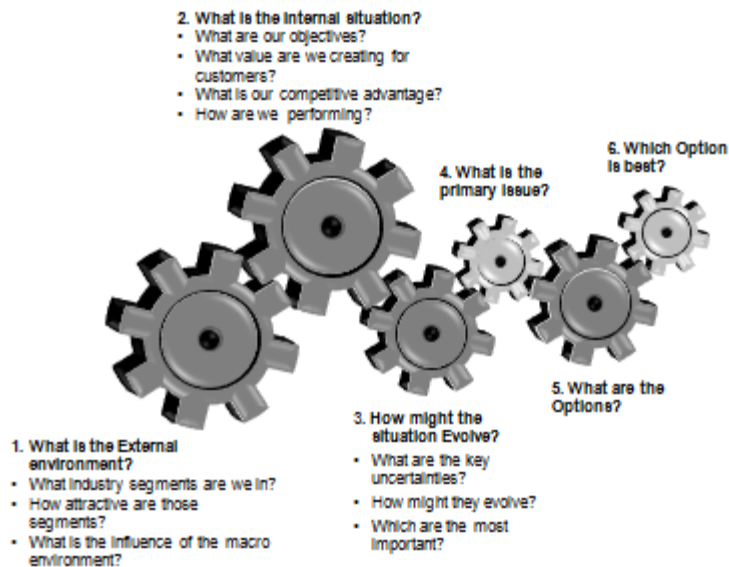
However, when faced with an important decision, you need to be able to design a strategy process and decide where to focus your attention – which in practical terms means deciding which questions to focus on and in what order. There are two extreme approaches. The first is to go through each question carefully, creating a detailed and well-supported plan that you then hope to implement in full (sometimes called the "planning", "analytical" or "positioning" approach). The second is to do no analysis but just try something, learning from the results and adjusting accordingly (sometimes called the "learning", "emergent" or "incremental" approach). In between these two is a spectrum of approaches which seek to capture the benefits of the two extremes. What those approaches are, and how you select the right one, is the topic of this chapter.

In parallel, you will need to think about who should be involved, and in what kind of process, which will be covered in the following chapters.

The Full Monty Approach

The most obvious sequence is to follow the cogs through one by one (see figure below – which also includes some sub-questions that a Full Monty approach might cover). This is typically used when investigating a relatively new situation where there is a high level of uncertainty about the right option or range of options, and getting the right answer is very important. A typical Full Monty strategy study might involve a team of four people analysing the first three cogs for 6-8 weeks, investigating customer needs, market trends, the general industry context, competitors and the economics of the business. This would culminate in an assessment of the current situation and future trends and a summary of the main issues, together with an initial view of the options. The next phase, which might take 2-4 weeks, would expand, flesh out and evaluate the options. The final stage would create an implementation plan, leading to the roll-out of the new strategy.

Basic questions in strategy

2. What is the internal situation?
- What are our objectives?
- What value are we creating for customers?
- What is our competitive advantage?
- How are we performing?

4. What is the primary issue?

6. Which Option is best?

1. What is the External environment?
- What industry segments are we in?
- How attractive are those segments?
- What is the influence of the macro environment?

3. How might the situation Evolve?
- What are the key uncertainties?
- How might they evolve?
- Which are the most important?

5. What are the Options?

The weakness of this approach is that it costs a lot and takes a long time. One way round this is to focus the analysis on one particular question or sub-question.

To illustrate, the management team of a competitor to Hewlett Packard in laser printers identified that the main area where HP outcompeted them was in the user-friendly design of the printers. To address this issue, they carried out a focused study to answer just one question: "What is HP's product development process for their laser printer?" The project provided insights that addressed the main weakness of the company and avoided the need for a full analysis of customers, markets, competitors, etc.

The Full Monty is, therefore, a last resort when you are highly uncertain about most aspects of the situation – for example, if you are entering into a new country or new market, or are concerned that false assumptions are being made about the current strategy.

Box: Who you need to know – Kenneth Andrews

Kenneth Andrews (1916-2005) began as an authority on Mark Twain and ended up as a professor at Harvard Business School and one of most influential early thinkers in the area of corporate leadership and strategy.

Andrews completed his PhD at HBS in 1948 and shortly afterwards became part of a group looking at the design of Harvard's Business Policy course – intended to present students with the problems of an entire organisation from the perspective of its leader. Eventually, the core concept developed by this group was termed "corporate strategy". Fundamental to his approach was SWOT analysis – the idea that an organisation's direction should be determined by its strengths, weaknesses, opportunities and threats.

Andrews believed strongly that strategy should lead to purposeful action. His view was that "every business organization, every subunit of organization, and even every individual [ought to] have a clearly defined set of purposes or goals which keeps it moving in a *deliberately chosen direction* and prevents its drifting in undesired directions" (emphasis added). He also developed the idea that the

long-term success of the organisation required a distinctive competence – in many ways a foundation for later theories of competitive advantage.

Andrews' work is no longer widely read. Some of it seems out of date in a world of rapid technological change, global competition, and organisations without the same command-and-control structures of the Andrews era. Nevertheless, he is a figure that represents the emergence of business strategy thinking from the post-war US economy and academic establishment, particularly that at Harvard Business School.

The Quick-and-Dirty Approach

Decision makers often use their intuition and experience to move rapidly to initial hypotheses or even conclusions. They skip through the questions, answering as best and as quickly as they can and circling back to do more detailed work as needed. Using this quick-and-dirty approach allows them to rapidly pinpoint any obvious options that do not require further analysis or consideration but can be implemented immediately. More generally, the quick-and-dirty approach will suggest what strategy questions need more follow-up.

For example, when the Malaysian government was looking for ways to industrialise by adding more value to the natural rubber that they produced, a quick-and-dirty review led them to realise that one of the biggest markets for rubber was tyres, but that this was a large, global and competitive business. They then commissioned a detailed study into the sources of competitive advantage in the tyre business and the options for Malaysia to significantly increase its tyre production. The quick and dirty approach thus generated some initial hypotheses, which they were able to develop and test with the more detailed study.

Box: Who Said it:

"We don't have a traditional strategy process, planning process like you'd find in traditional technical companies. It allows Google to innovate very, very quickly, which I think is a real strength of the company" - *Eric Schmidt*

The strength of the quick-and-dirty approach is that it enables rapid focus of the work effort by identifying what is known and where more work needs to be done. As a result it is a very common approach and, generally, a good one to take.

The one risk is that prejudices and misleading prejudgments can be baked into the strategy early on. There is a danger that any strategy work done will be targeted primarily at proving the initial hypotheses, rather than being open to contradictory data. It is sometimes beneficial to allow time to simply collect data and reflect on what it might imply. Nevertheless, if this risk can be guarded against – for example, by exposing the initial output to some sceptical opinions – the quick-and-dirty approach is a useful precursor to any more detailed strategy work.

The 'quick-and-dirty with follow-up approach' may result in a decision to go through a Full Monty, or it may suggest that enough is already known to permit a more focused and efficient approach. We now describe common versions of these more focused approaches.

The Future Thinking Approach

This starts by focusing not on the current situation but on the third question: "How might the situation evolve?" An example of this is when the strategy process begins with the creation of scenarios of how the future might develop. A number of credible alternative futures or scenarios are created and the position of the organisation under each scenario is evaluated. Organisations also commonly conduct

thought experiments or studies into how they would perform if the economy unexpectedly contracted or expanded.

Starting with a focus on the future is powerful when there is a risk that the strategy team is too blinkered. It opens their minds to the strengths and weaknesses of their current position, and the nature of any opportunities or threats. It provides a clear framing of important issues and the need for change. It stimulates the discussion of options. In short, the strategy process is kicked off in a way that stretches the range of options that will be identified and considered.

Box: Who Said It?

"...whereas all experiences are of the past, all decisions are about the future. The image of the future, therefore, is the key to all choice-oriented behaviour." – Kenneth Boulding

This approach is useful for organisations in environments that are changing rapidly. For example, a consumer products company such as Sony might spend time considering how consumer lifestyles and technology are changing in order to identify new markets to target. A car company might spend time thinking about how technologies such as electronic controls or batteries will develop and how they will change the nature of the automotive business.

Another time to use "future thinking" is when the organisation needs to be kick-started into thinking more creatively. It is said that if you drop a frog into a pan of hot water, it will leap out. However, if you put it in cold water and heat it up slowly the frog will fail to notice the change in temperature and stay in the pan until it is cooked. I can't vouch for the validity of the science (no scientist has admitted trying out the experiment since it was performed in the 19th century), but the general point is that the human brain tends to be poor at reacting to changes that occur incrementally. Sometimes people need to be shocked into realising that the strategic temperature is rising and that that they must come up with more creative options.

For example, this approach was used in South Africa in the apartheid era to bring black and white leaders together. The scenario-planning function at Anglo American put together a presentation offering two scenarios for South Africa: the 'high road' of negotiation, leading to a political settlement, and the 'low road' of confrontation, leading to civil war. This presentation was used to influence the thinking of both the Afrikaner and ANC camps. Partly as a result, South Africa took the high road.

For a business example, Shell famously used scenarios of the future oil business to sensitise their 1970s senior management team to what might happen if oil prices rose significantly. When this actually happened, Shell reacted more quickly than the competition.

These examples illustrate the power of addressing the question "How might the situation evolve?" It forces the people involved to challenge their own assumptions about the situation and how it might develop, and to come up with more innovative and powerful options than they would otherwise.

To start with this question requires that the participants in the strategy process already have extensive knowledge of the current situation. This allows them to build credible future scenarios rather than fantasies. For this reason, the exercise is often done as a team. For example, if Apple wants to think about how the market for hand-held devices will develop, it might put together a group that includes a technology specialist, an expert on customer needs, someone who understands what its direct and indirect competitors are doing, and an expert on the likely development of relevant markets such as MP3 players, PDAs and mobile phones.

The Issues Approach

If you are knowledgeable about the current situation and how it may develop then it can be efficient to jump straight in with the fourth question: "What is the primary issue?" Doing so will create a discussion about the nature of the issue facing the organisation and thus the options that should be considered.

To illustrate this, consider the example of a power distribution company – that owned and operated the power lines that bring power from the national high-voltage grid to homes and businesses – which was struggling to meet its profit targets. Different members of the management team saw the issues facing the business in different ways. For some the issue was "How do we cut costs to maintain and grow profits?" This framing led to various options for improving operational effectiveness, for example, through improvements in working practices. For others the issue was "How do we compete as a small competitor in a business with much larger competitors?" For these people the options were to do with the choice of acquisition targets and ways to improve economies of scale by outsourcing some activities to larger companies. A third group saw the issue as "How do we find new sources of profitable growth?" This framing led to a search for new businesses, such as the installation and operation of solar panels and the provision of extra services to larger customers. The discussion of these different ways to frame the issue led to a rich range of options – all of which could then be analysed in more detail.

As with "future thinking", this approach can rapidly open up minds to new possibilities. It generates very different ideas about what is the most important strategic issue, and develops a more focused view of what further analysis needs to be done. It not only reduces the risk of doing a lot of work without addressing the right issues, but it helps focus attention on a manageable range of options that need to be investigated further. For experienced management teams it is an approach that helps them rapidly share ideas, identify differences of opinion and agree on a list of topics that need further analysis.

However, it also requires that the team understand enough about the current situation and how it might develop to be able to sensibly frame the issue. There is a risk that framing the issue too early may result in too narrow a range of issues being addressed. Therefore, it can be helpful to come back later in the strategy process and revisit the question of the nature of the issue. With the benefit of more information, the strategy team may realise that they are addressing the wrong issue and need to reframe their view of the situation.

The Options Approach

An experienced decision maker will often use this question to cut to the chase – even right at the beginning of the strategy process. It can be done by asking each person to state their favoured option or by asking the group to list all possible options. Doing so focuses any further data gathering, analysis and debate on those activities required to make the choice between this list of initial options.

This approach is similar to starting by framing the issue, but some find it simpler and more practical to discuss alternative options rather than alternative definitions of the issue. For example, an alternative approach for the power distribution company would have been to ask every team member to list all the options that they thought should be considered. This would have revealed a wide range of options – ranging from negotiations with the unions over working practices, to entering new businesses such as solar panels. This would in turn have led to a process of prioritising and evaluating the options in more detail.

The other advantage of thinking about options is that it counterbalances the potential effect of anchoring on a particular option and 'group think'. One problem with relying on a sequential process, starting with an analysis of the situation, is that members of the decision team will start forming their own views about the best options as the analysis progresses (as we will see later, it is human nature to

jump to conclusions). By the time the process arrives at the question "What are the options?", everyone has their favourite option already rooted in their mind. Starting with a discussion about different options can ensure that a wider range of options is generated before personal or group biases take hold.

Having a good discussion about options does, however, require that the decision-making team has a sound understanding of the answers to the previous questions in the strategy sequence. It is no good starting with a discussion of options if you are not already familiar with the external and internal situation, how it is likely to develop, and the strategic issues that need to be addressed.

Box: Who you need to know – Henry Mintzberg

Henry Mintzberg, (b. 1939) is a prolific writer on strategy, management and organisation. Since 1968 he has been a professor at McGill University in Montreal. In the area of strategy, one of his main contributions has been to point out, and critique, the many ways in which strategy is actually created, rather than how (according to certain other writers) it should be created. Mintzberg is a vigorous critic of formal 'strategy planning' – a coupling that he views as an oxymoron.

The habit of pointing out misconceptions about management started with his PhD, looking at what five CEOs actually spent their time doing. This led to a book published in 1973 called "The Nature of Managerial Work", debunking the idea that managers spend their time creating plans and controlling their execution. He turned his attention to strategy making in the 1990s, pointing out that strategy is not simply planned – it often "emerges" as a result of chance, small decisions and opportunism. He further developed a critique of strategy formulation and in "Strategy Safari" presents several ways in which the process of strategy creation has been described.

Mintzberg is more than just a gadfly – although to many of his victims he certainly plays that role. He is also a serious mind who has fought to ensure that management thinking is humanised and useful. While he may sometimes oversell his point, he does at least make a vigorous defence of his case.

Any serious student of strategy must read some Mintzberg, even if only as an antidote to some of the rather dreary writing in this field. Mintzberg is a gifted synthesizer, writer and speaker and has written some excellent books on strategy formation, organisational structure, power, management and management education.

The Test-and-Learn Approach

A rather different approach is to answer the questions not by thinking about possible answers, but by trying something to see if it works. The supermarket chain Tesco, for example, does not spend much time worrying how customers will respond to a particular new grocery product; it simply tries selling it. If it sells, it may tweak the offer to see if that works better; if it doesn't sell, it will think of another experiment. The cumulative effect of these multiple small experiments is that its strategy in groceries will evolve into something different and more effective.

This test-and-learn approach (also described as "Ready, Fire, Aim") can be very powerful, particularly in markets where there is no seismic shift required but plenty of small, incremental uncertainties about customer needs, competitive actions and market development. . Tesco's competitors have found that even if they launch a new product successfully, Tesco will copy it and roll it out quicker than they could in their own stores.

Unfortunately, some organisations do the "test" without the "learn". Many managers are superb do-ers – good at mobilising the troops, promoting the product or ramping up production. They find it easier to jump to a decision and act, rather than go carefully through the questions. To add the "learn" phase generally takes a major investment. For example, it took Tesco years to build the required IT systems.

Professional services firms invest extensively in knowledge management systems and cultures that encourage sharing of knowledge. In a different industry, Zara, the fashion retailer, has extensive finishing facilities that allow it to customise the colours and volumes of its product ranges in response to actual sales in its stores. But investing in test-and-learn does not come cheap.

Another issue with the test-and-learn approach is that it is great at creating evolutionary change but is unlikely to uncover radically new solutions. Amphibians evolved into reptiles and reptiles into birds, but they didn't suddenly transform into trees or fish. For this reason, Tesco has a strategy function that thinks about major changes that the test-and-learn approach cannot deal with, for example, entering new countries or new businesses such as pharmacies or financial services. Most test-and-learn strategies need to be complemented by some of the other approaches to creating strategy described earlier.

One More Approach: Intuitive Bouncing

Most of the approaches described so far start with one particular strategy question and using it to identify further work that has to be done. An alternative approach is to bounce intuitively from strategy question to strategy question. For teams who are used to discussing strategy, it is a free-wheeling style that can be efficient in terms of time and effective in terms of exchanging ideas and cutting to the chase.

There is no problem with taking this approach – indeed it is probably the approach that an expert team will naturally use – particularly in a fast-moving environment where strategy needs to be frequently discussed and refined. However, the danger is that it may descend into chaos, leaving key uncertainties unaddressed and allowing personal biases to drive the decision.

Leave time in your strategy making for bouncing – put aside some time to meet and brainstorm around all the questions in an unstructured way. But don't forget to regroup and restructure the work effort at the end of your meeting!

How to pick the right approach

There are many ways to prioritise the questions – how do you pick the right one? The following chart draws up the alternative approaches, summarising their respective pros and cons.

Alternative ways to sequence the questions

Approach	Description	Pros	Issues/comments
The Full Monty	• Start with "What is the current situation" • Ensure rigorous and logical answers to all questions before proceeding to next one	• Rigorous • Builds solid fact base on which options and decisions are securely founded	• Slow • Expensive on resources
Quick and Dirty, with Follow Up	• Quick run through all questions, followed by focus on questions/sub-questions requiring more attention	• Allows quick sharing of ideas • Identifies areas requiring further analysis and debate	• Requires reasonable knowledge and/or diversity of opinion to jumping to conclusions prematurely
Future thinking	• Start with "How might the situation develop?" – then draw out issues, options	• Stimulates creativity about the current situation, issues and options	• Requires good prior knowledge of the current situation
Frame the issue	• Start with "What is the primary issue – what type of solution is required?" – then identify options/ further analysis required	• Allows rapid focus on most relevant options • Stimulates discussion of alternative frames	• Requires good prior knowledge of current situation and how it is likely to develop
What are the options	• Start with "What are the options?" – then identify further analysis required	• Cuts to critical issue • Stimulates discussion of alternative choices	• Requires sound understanding of answers to prior questions
Test and learn	• Try something – adjust strategy based on results	• Effective when uncertainty is high and incremental	• May result in evolutionary changes only
Intuitive bouncing	• Jump between questions, punctuated by periods of focus on critical questions	• Permits focus on most important questions	• Can descend into chaos • Requires an experienced strategist

To pick the right approach for your situation, first review the strategy questions and ask which ones you think you have a good response to. Ideally, do this with a small group – to make sure you get a relatively unbiased view. It may help to use the quick-and-dirty approach to find out where there is agreement, where there is disagreement, and where there is simply ignorance.

Interview some of the key individuals and experts to flesh out what they think are the main issues and options, their views about the external and internal environments and how they will evolve. During these early discussions, be curious, listen well and probe carefully. Look out for key assumptions on which individuals are basing their world view. A useful technique for getting to the root of such assumptions is the "5 Whys" described in the previous chapter. Ask the individual who has made a broad statement why they believe it. This will reveal an underlying assumption. Then ask why that assumption is held too. Continue until you understand the underlying assumptions on which an individual is basing their view. These may need to be tested later – particularly if different individuals have different assumptions.

It may be helpful to create a 'fact pack' that summarises the relevant information that is already available. Ask others to contribute to the fact pack to avoid doing unnecessary data collection and analysis.

If you are confident that you have pretty good answers to some of the early questions, then it may be possible to jump to a later question – using one of the four approaches that do so: future thinking, frame the issue, what are the options, or test-and-learn. If not, you may need to settle for the Full Monty approach. Make sure you review the 'pros' column and the 'issues and comments' column in the figure above before finalising the approach.

Try not to constrain the strategy process just because you have limited time and resources; it is probably better to get a bigger team or more time than to come up with a flawed strategy. If you have identified different viewpoints within the senior management team, this can be a powerful basis on which to argue that you need more time and resources.

As you develop the strategy, review your plan from time to time. In particular, look out for when it is necessary to come back to one of the earlier questions – such as 'What is the external environment?' -

to fill in a critical gap in your knowledge or test a key assumption. Use the pyramid principle discussed in chapter one to test your logic. Ask an independent person or group to review and challenge your thinking. Be ready to change the questions you focus on, if needed.

Be prepared for deviations from the proposed approach, particularly during meetings and discussions. Be ready for some intuitive bouncing – it is part of the creative process - but don't let it cause the whole strategy process to slide into chaos.

Box: If You Only Remember One Thing
Be thoughtful about which strategy questions to focus on, and in what order

Box: What you need to read
1) The classic texts on the nature of the strategy process are, *The Rise and Fall of Strategic Planning,* and its less academic version, *Strategy Safari* by Henry Mintzberg. Mintzberg's view is somewhat extreme, but highly informative and readable.
2) A view of the strategy process in fast-moving industries is provided by Kathleen Eisenhardt in *Strategy as Strategic Decision Making* in the Sloan Management Review, Spring 1999, page 65.
3) Kenneth Andrews' classic, but very dated, book on strategy is *The Concept of Corporate strategy*
4) *Games Foxes Play* by Chantell Ilbury and Clem Sunter provides a description of how to design a Future Thinking strategy process