

# Strategic Thinking | A Framework for Individual Executives to Elevate Business

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For many managers, the word strategy conjures up thoughts of gigantic PowerPoint decks, binders collecting dust and general confusion. A survey by Roger Martin of the Rotman School of Management found that 67 percent of managers believe their organization is bad at developing strategy.

Harvard Business School professor David Collis is even more direct: “It’s a dirty little secret: Most executives cannot articulate the objective, scope, and advantage of their business in a simple statement. If they can’t, neither can anyone else.” Martin’s research supports this point: 43 percent of managers cannot state their own strategy.

What seems to be the cause of this lack of performance when it comes to strategy?

My research with 500 managers at 25 companies identified the top 10 strategy challenges and the frequency of each challenge by company:

**1 | Time (96 percent).** The most commonly cited strategy challenge is time. With more responsibilities and fewer people to handle them, many managers are overwhelmed with activities. While checking lots of tasks off a to-do list each week may foster a sense of accomplishment, activity doesn't always equal achievement. If the individual tasks aren't strongly supporting the strategy, then we may fall into the trap of activity for activity's sake. When there are lots of things to do, managers feel guilty stopping to take time to think strategically about the business. After all, most performance reviews don't include a big box for "Thinks strategically for six hours a week," with the rating of "Exceeds Expectations," marked in it. When there is a lot to get done, time to think is often the first thing to go.

**2 | Commitment (72 percent).** Gaining commitment from others to support and execute the strategy vexes many managers. Often referred to as buy-in, commitment can be challenging for several reasons. If the people expected to execute the strategy aren't aware of it, or don't understand it, then commitment will be non-existent. According to a study out of Harvard Business School, a shocking 95 percent of employees in large organizations are either unaware of or don't understand their company strategies.

This finding may be rejected out-of-hand by some senior leaders, but it's crucial to find out just how high that percentage is for your group. Another reason buy-in is lacking is because many people don't understand the reasons behind the strategy and how it will help them achieve their goals. A study of 23,000 workers found that only 20 percent said they understood how their tasks relate to the organization's goals and strategies. If leaders fail to share why the strategies are in place, and don't translate them to people's respective work, the level of commitment will be minimal.

**3 | Lack of priorities (60 percent).** A great cause of frustration among managers is the overall lack of priorities at the leadership level. When everything is deemed important, it creates an overflowing-plate syndrome. If clear priorities are not established up front, then it becomes difficult for people to determine what they should be working on and why. This lack of priorities prevents people from taking things off of their plate, resulting in the frustration of feeling spread too thin by too many initiatives. A lack of priorities is a red flag that the difficult work of making trade-offs—choosing some things and not others—was not accomplished in setting the strategy. Good strategy requires trade-offs, which in turn help establish priorities by filtering out activities that don't contribute to the achievement of goals.

**4 | Status quo (56 percent).** Numerous studies in the social sciences have shown that people prefer the status quo to change. When people change strategy, inevitably they are changing the allocation of resources, including how people invest their time, talent, and budgets. Since strategy involves trade-offs, certain people will be gaining resources and others losing resources. Obviously, those slated to lose resources are going to prefer to keep things the way they are. Another factor in the preference of the status quo is the “if it ain’t broke, don’t fix it,” mentality. For groups that have experienced success in the past, the idea of making changes to the strategy flies in the face of common sense, so their question is, “Why change what made us successful?” What they may not realize is that changes in market trends, customer value drivers, and the competitive landscape may be making the current strategy obsolete. In leading a revival at Starbucks during his second stint as CEO, Howard Schultz said, “We cannot be content with the status quo. Any business today that embraces the status quo as an operating principle is going to be on a death march.”

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**5 | Not understanding what strategy is (48 percent).** Even at the highest levels of organizations, confusion abounds as to what exactly is a strategy. Perhaps due to its abstract nature, strategy tends to mean different things to different people. It's often confused with mission, vision, goals, objectives, and even tactics. Failure to provide managers with a universal definition of strategy, and clear examples to refer to, leaves the term open to interpretation, creating ineffective plans and inefficient communication. To determine the level of understanding in your group, provide each manager with a 3" × 5" notecard at your next meeting and ask each person to record their definition of strategy along with an example. Collect the cards, read them aloud to the group, and tally the number that defined strategy in the same way. UCLA professor Richard Rumelt describes the problem this way: "Too many organizational leaders say they have a strategy when they do not. ... A long list of things to do, often mislabeled as strategies or objectives, is not a strategy. It is just a list of things to do."

**6 | Lack of training/tools for thinking strategically (48 percent).** Many managers aren't considered strategic simply because they've never been educated on what it means to think and act strategically. For many years in the pharmaceutical industry, district sales managers were not asked to be strategic, because the blockbuster business model combined with the reach and frequency sales approach proved to be a winning formula.

However, changes in the industry—including healthcare reform, geographic differences in managed care, reimbursement policies, and the emergence of Accountable Care Organizations (ACOs)—now require district sales managers to strategically allocate their resources and make trade-offs between different opportunities to grow their business. Research has found that 90 percent of directors and vice presidents have received no training to become competent business strategists. It shouldn't be a shock then that a Harris Interactive study with 154 companies found only 30 percent of managers to be strategic thinkers. The disconnect on proficiency in strategic thinking can sometimes occur between a CEO's perspective and the perspective of senior executives. A global survey showed that while only 28 percent of CEOs felt their teams needed improvement in strategic thinking, more than half of the non-CEO executives indicated that strategic thinking skills were in need of improvement. Procter & Gamble CEO A. G. Lafley says, "There simply is no one perfect strategy that will last for all time. There are multiple ways to win in almost any industry. That's why building up strategic thinking capability within your organization is so vital."

**7 | Lack of alignment (48 percent).** Getting people on the proverbial "same page" is difficult when it comes to strategy. The challenge lies in the fact that different groups within the organization have their own goals and strategies. Sometimes they align with others, but often times they don't. When there is misalignment, power struggles erupt and instead of working

with one another, managers from different areas work against each other to ensure their priorities take precedence. Lack of alignment can also occur between executive teams and the organization's board of directors. Some organizations use their board to provide input into the development of strategy and some use the board to review the already completed strategy in a Q&A-format presentation. Selecting the optimal intellectual exchange and setting appropriate expectations for contribution can be critical to a CEO's success. A survey of 1,000 corporate directors found the number-one reason for success and the number-one reason for failure in CEO appointments dealt with strategic alignment between the CEO and the board.

**8 | Firefighting (44 percent).** Make no mistake, a firefighting mentality starts at the top of the organization. If managers see their senior leaders constantly reacting to every issue that comes across their desk, they too will adopt this behavior. Firefighting then becomes embedded in the culture and those that are seen as the most reactive, oddly enough, garner the greatest recognition. Managers who thoughtfully consider each issue before responding don't seem to be doing as much as the firefighters, when in reality, they're exponentially more productive. "Let's think about that," is a simple but powerful phrase that can eliminate reactivity within your business and culture. The next time you receive an e-mail marked urgent or someone comes charging into your office with how to react to a competitor's activity or a new flavor-of-the-month project, reply with "Let's think about that."



Then stop and consider how this helps you achieve your goals and supports your strategic focus. To do so, determine the probability of success, impact on the business, and resources required. If after this analysis, the new task doesn't appear to support your goals and strategies, kindly inform the relevant parties that, relative to the other initiatives you're working on, this doesn't warrant resource allocation.

**9 | Lack of quality/timely data and information (36 percent).** Strategic thinking is defined as the ability to generate new insights on a continual basis to achieve competitive advantage. An insight is the combination of two or more pieces of information or data in a unique way that leads to the creation of new value. So, at the core of strategic thinking is the information or data, which we piece together in unique ways to come up with new approaches, new methods, or new solutions for providing superior value to customers. Managers who aren't receiving timely, high-quality information and data regarding the key aspects of their business are going to be hindered in their ability to think strategically—and the ability to understand this information is critical. A study showed that 62 percent of workers cannot make sense of the data that they receive. Without clear priorities and methods for understanding, categorizing, and sharing insights, managers at all levels will continue to struggle with generating new ways to achieve their goals and objectives. Research by the consultancy McKinsey & Company verified the challenge managers face when it comes to profitably growing their business on strategic insights: *A fresh*

*strategic insight—something your company sees that no one else does—is one of the foundations of competitive advantage. It helps companies focus their resources on moves that separate them from the pack. Only 35 percent of 2,135 global executives believed their strategies rested on unique and powerful insights.*

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**10 | Unclear company direction (32 percent).** It’s difficult for managers to set strategy if there isn’t clear strategic direction at the business unit and corporate levels. In some organizations, there are strategies at the business unit and corporate levels, but they’re kept secret. Evidently, this secrecy is to prevent competitors from finding out their strategy. While it’s understandable to keep proprietary processes and future intellectual properties secret, it makes little sense to keep strategy hidden away. If strategy is how to achieve the goals and objectives, it’s impossible to gain full engagement and proper commitment from employees in rolling out the strategy if they don’t know what it is.

The other main reasons for unclear company direction are a lack of process to develop strategy, a “we’re too busy to plan” approach, and ignorance as to what comprises sound strategy. Managers from more than 500 companies have taken an assessment I developed called “Is Your Organization Strategic?” and the average score is 45 percent, a failing grade, indicating there are many rudderless companies out there that are strategically adrift.

## The Importance of Strategy

How many of these challenges does your team face? More important, what are you doing to overcome them? The inability to effectively navigate strategy challenges can have devastating long-term effects on an organization. Research by The Conference Board has shown that 70 percent of public companies experiencing a revenue stall lose more than half of their market capitalization. Additional research attributes the primary cause of these revenue stalls to poor decisions about strategy. While it’s convenient to blame an organization’s failings on external factors such as the economy, decisions about strategy account for failure awhopping 70 percent of the time.

While most managers believe strategy is an inherent factor in their organization’s success, several studies also document the support for this claim.

One study concludes that, “strategy has a positive and significant effect on a firm’s performance. Specifically, it is found to influence both the growth and profitability of a firm.” Another study summarized its findings as, “strategy contributes to profitability differences between successful and unsuccessful companies.” Finally, a ten-year study out of Harvard Business School showed that firms with clearly defined and well-articulated strategies on average outperformed competitors by 304 percent in profits, 332 percent in sales and a whopping 883 percent in total return to shareholders.

Yes, strategy does matter.

When poor decisions about strategy are made and an organization goes through a revenue stall, it’s been shown that, on average, low performance continues for more than 10 years. Unfortunately, this prolonged period of poor performance can lead to bankruptcy. Research on 750 bankruptcies during a 25-year period showed that the number-one factor behind these bankruptcies was bad strategy. Contrary to popular opinion, the researchers attributed the failures to flaws in the strategies themselves, not to poor execution of the strategies. Therefore, it’s important to be skilled at crafting strategy.

# The Rise of Strategic Thinking

To more effectively develop and execute strategy, it stands to reason that we need to better understand it. In order to better understand it, we need to be skilled at thinking about it. And for a decade, strategic thinking has been cited as the number one most valued skill in managers by numerous sources including the Wall Street Journal, Chief Executive Magazine, HR Magazine and the American Management Association. Procter & Gamble Chief Executive AG Lafley supported these research findings when he wrote, “The explicit goal was to create strategists at all levels of the organization ... The idea is to build up strategy muscles over time, in different contexts, so that as managers rise in the organization, they are well prepared for the next strategic task.”

As a manager assumes higher levels of responsibility, he or she makes decisions involving larger sums of resources. These resource allocation decisions have an exponentially greater effect on the organization’s business outcomes, ranging from enduring success to the finality of bankruptcy. Therefore, the need to be a sound strategic thinker increases as a leader rises to the C-suite. Harvard Business School associate professor Boris Groysberg’s research confirms this premise: “One theme that ran through our findings was the requirements for all the C-level jobs have shifted toward business acumen. To thrive as a C-level executive, an individual needs

to be a good communicator, a collaborator and a strategic thinker. For the senior-most executives, functional and technical expertise has become less important than understanding business fundamentals and strategy.”

Results from the Corporate Board of Directors survey confirmed that the number-one trait of active CEOs that make them attractive board candidates is strategic expertise. Not only does a leader need to be able to generate fresh strategic insights on a regular basis, he or she needs to be able to harness insights from their employees’ best thinking as well by facilitating strategy conversations. The ability to then package their strategic thinking and communicate strategy in a simple, persuasive, and concise manner is just as critical. Pepsi CEO Indra Nooyi concludes, “To me, the single most important skill needed for any CEO today is strategic acuity.”

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# The GOST Framework

At the heart of most strategy challenges is a lack of clarity as to what strategy is and how it differs from some of the other key business planning terms. If you think that this lack of strategy knowledge only plagues new managers at the lower levels of the organization, take a look at the following quotations I've collected during my work from CEOs describing so-called strategies that aren't strategies at all:

- Become the global leader in our industry.
- Use innovation to build customer-centric solutions.
- Grow our audience.
- Strengthen core business, execute new initiatives, and reduce costs.
- Increase sales 25 percent in emerging markets by pursuing growth opportunities.

The examples demonstrate how frequently the terms goals, objectives, strategies, and tactics are used interchangeably. I developed a simple framework called GOST (Figure 1.0) to help managers at all levels use and teach others to use these business-planning terms appropriately.

*“At the heart of most strategy challenges is a lack of clarity...”*

A goal is a target. It describes what you are trying to achieve in general terms. The following is an example of a goal for a regional sales director:

**Goal:** Win the national sales contest for our region.

An objective also describes what you are trying to achieve. The difference is, an objective is what you are trying to achieve in specific terms. The common acronym used to help flesh out an objective is SMART: specific, measurable, achievable, relevant, and time-bound. Objectives should meet these criteria, and they should flow directly from the goals you've already set. As evidenced in the following example, the objective matches up with the corresponding goal established earlier:

**Goal:** Win the national sales contest for our region.

**Objective:** Achieve \$25 million in sales by the end of the third quarter of this year.

FIGURE 1.

GOAL	OBJECTIVE	STRATEGY	TACTIC
What	What	How	How
General	Specific	General	Specific



Once we've identified the goals and objectives, then we can determine the strategy, which is the path to achieving them. Strategy and tactics are how you will achieve your goals and objectives, how you will allocate your resources to succeed. Strategy is the general resource allocation plan. The tactics are specifically how you will do that. Using the previous example, we can see how the strategy serves as the path to achieving our goals and objectives.

**Goal:** Win the national sales contest for our region.

**Objective:** Achieve \$25 million in sales by the end of the third quarter of this year.

**Strategy:** Focus selling efforts on expanding share of wallet with current customers.

**Tactics:** Have district sales managers work with sales reps to schedule appointments with the top five customers for each territory. Prepare a sell sheet showing dollarized value of using our products in combination. Videotape three customers using two or more of our products in combination. Purchase iPads and put new sell sheets and videos into a presentation for use during customer meetings. Create a dollarized, value-close, talking-points checklist to assist district managers and reps in expanding share of wallet.

If your managers are having trouble differentiating between strategy and tactics, they can use the "rule of touch." If you can reach out and physically touch it (e.g., sell sheet, training DVD, etc.),

it's a tactic. The concept of strategy originated in the military arena thousands of years ago. Even that far back, Chinese general and philosopher Sun Tzu said, "All the men can see the tactics I use to conquer, but what none can see is the strategy out of which great victory is evolved."

It's often said that strategy is long-term and tactics are short-term. In reality, long-term and short-term descriptors for strategy and tactics may or may not apply. A strategy that successfully helps you achieve your goal within three months might be short-term compared to tactics used for years to come in fending off a tough competitor. Using time as the criterion for distinguishing between strategy and tactics is common, but misinformed.

Since we can't see or physically reach out and touch strategy, it's often skipped in favor of going straight to tactics. A good number of the business plans I've reviewed over the past 15 years list goals, objectives, and tactics, skipping strategy all together. If strategy is not determined before tactics, there is no way of intelligently changing course when objectives and their corresponding milestones are not being achieved. Having a high-performance car (tactic) doesn't help you reach the other side of the river if there isn't a bridge (strategy) to cross it. With no strategy in place, it's easy to fall into a game of tactical roulette, where you continually chamber a new tactic and pull the trigger, hoping something hits its target. But, sooner or later, you'll be looking at a dead plan.

# The Fusion of Strategy & Innovation

The common core of both strategy and innovation is insight. An insight results from the combination of two or more pieces of information or data in a unique way that leads to new value for customers. A McKinsey & Company study of more than 5,000 executives showed that the most important innovation trait for managers in high-performing organizations is the ability to come up with insights. Unfortunately, McKinsey's research also showed that only 35 percent of global executives believed their strategies are built on unique insights. And only 25 percent of managers believe their companies are good at both strategy and innovation.

Innovation is the continual hunt for new value; strategy is ensuring we configure resources in the best way possible to develop and deliver that value. Strategic innovation can be defined as the insight-based allocation of resources in a competitively different way to create new value for select customers. Too often, strategy and innovation are approached separately, even though they share a common foundation in the form of insight. By becoming a more effective strategic thinker, a leader is better prepared to drive strategy and innovation together.

*“The common core of both strategy and innovation is insight.”*

# The Value of Strategic Thinking

Can a manager learn to be strategic? Studies of identical twins separated at birth shows that approximately one-third of a person's ability to think creatively comes from genetics while two-thirds comes through learning. My work with thousands of executives around the world shows a 30 percent increase in knowledge of strategic thinking principles following developmental programs. The knowledge increase is coupled with behavioral enhancements that come with being more strategic including insight generation, prioritization, trade-offs, planning, problem solving, decision making and resource allocation to name a few. As professor Michael Watkins of Switzerland's IMD business school says, "There's no doubt that strategic thinking, like any other skill, can be improved with training."

In addition to the knowledge, behavioral, and skill benefits of developing one's strategic thinking capabilities, there are significant financial benefits as well. The research presented earlier regarding the financial implications of great strategy (increases in total return to shareholders, sales and profits) and poor strategy (commoditization and bankruptcy) demonstrate the value at the company level. That's where most analysis stops. However, if we look deeper, we can discover the financial returns generated by the individuals who think and act strategically.

Strategy is about the intelligent allocation of resources and time is often considered the most valuable of these resources. To think strategically is to allocate one's time effectively so it is productive. Unproductive time is spent putting out fires, reacting to urgent but unimportant matters and working on misdirected strategies. We can begin to understand the financial value to individuals of strategic thinking by evaluating the impact of transforming their unproductive time to productive time.

Let's look at an intact team of 10 managers. We'll use a base of 2,000 working hours per year per manager (40 hours per week x 50 weeks). Research has shown that 25-40 percent of the average manager's time is unfocused and not highly productive. To be ultra conservative, let's use half of the number at the low end of this range and assume only 12.5 percent of the average manager's time is unproductive. We'd then conclude that one hour of each day (12.5% x 8 hours/day) is unproductive. If we multiply the one hour per day x 5 days per week, we get 5 hours per week that's unproductive.

*“ We can begin to understand the financial value to individuals of strategic thinking by evaluating the impact of transforming their unproductive time to productive time.*

Multiplying the 5 hours per week x 50 weeks per year, we get 250 hours of unproductive time per year per manager. Using the average U.S. salary for the following job titles according to salary.com and Glassdoor, we can then calculate the benefit of strategic thinking skill development that transforms unproductive time and activity into productive time and strategic activity:

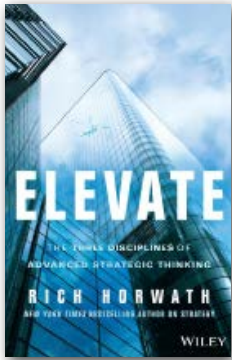
LEVEL	ANNUAL SALARY	SALARY PER HOUR	HOURS WASTED PER YEAR	\$SAVINGS PER MANAGER	\$SAVINGS FOR TEAM OF 10
<b>Marketing Mgr.</b>	\$ 85K	\$42.50	250	\$10,625	\$100,625
<b>District Sales Mgr.</b>	\$100K	\$50.00	250	\$12,500	\$125,000
<b>Director</b>	\$130K	\$65.00	250	\$16,250	\$162,250
<b>VP</b>	\$147K	\$73.50	250	\$18,375	\$183,750

Despite using an extremely conservative estimate of the average amount of unproductive time per manager, the financial savings are significant. If we add these savings to new revenue dollars and profits generated from more productive strategies, competitive differentiation and innovative customer value developed through improved strategic thinking, the financial implications can be staggering.

Great strategy doesn't magically emerge from Excel spreadsheets or elaborate PowerPoint decks. It comes from managers who can think strategically. It inspires confidence, sets direction and creates competitive advantage.

**Most important, great strategy is developed by great strategists. 📌**

# Info



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**ABOUT THE AUTHOR** | Rich Horwath is the CEO of the Strategic Thinking Institute where he has helped more than 50,000 managers around the world develop their strategic thinking skills. Rich is the author of the new book, *Elevate: The Three Disciplines of Advanced Strategic Thinking* (Wiley, 2014). He is a New York Times and Wall Street Journal bestselling author on strategy and his work has appeared on CNBC, CNN, ABC, CBS, NBC and FOX. Sign-up to receive your free copy of the Strategic Thinker newsletter by visiting [www.strategyskills.com](http://www.strategyskills.com).

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