

Does Strategy Matter?

by Rich Horwath

Strategy is the great work of the organization. In situations of life or death, it is the Tao of survival or extinction. Its study cannot be neglected.

Sun Tzu

Chinese General & Author of “The Art of War”

Does strategy matter? Foolish question, you say. Of course it does. Really? Then how do you explain the thousands of companies, products and services that operate without a clear strategy in written form each year?

The answer to the question is “yes,” and “no,” depending on the type of company you work for. The answer is “yes, strategy does matter” if your company is seeking to be financially successful.

The answer is “no, strategy does not matter” if you work for a company that is married to a fire-drill mentality, thrives on daily crisis, reacts and overreacts to each and every competitor move, changes direction based on one sales rep story from a tradeshow in Atlanta and rationalizes that “we’ve done just fine without it.” As Andrew Campbell, a former instructor at the Harvard Business School and the London Business School has said, “Almost every company I know needs a corporate strategy and doesn’t have one.”

The Cold, Hard Facts

The Evergreen Project is the most statistically rigorous management research ever conducted on the keys to enduring business success. The study examined more than 200 management practices, from innovation and business processes to 360-degree performance reviews. A total of 160 companies were reviewed over a ten-year period to determine which of the management practices were essential to a company’s financial success. The financial measurements used included total

return to shareholders, sales, assets, operating income and return on invested capital.

The results showed that the financially successful companies all had a clearly defined and well-articulated strategy. No exceptions. These companies outperformed the losing companies by a 945% to 62% margin in total return to shareholders, had a 415% to 83% advantage in sales, a 358% to 97% advantage in assets, a 326% to 22% advantage in operating income and a 5.45% to -8.52% advantage in return on invested capital.

While many companies have been able to survive without a clearly defined strategy in written form, a question looms: How much better could they be doing *with* a strategy? The 22% gain last year might seem impressive, unless of course it could have been a 65% gain with a solid strategy behind it. A company or product or service can certainly survive without strategy, but it will never thrive.

There’s Always a “But...”

Still, there are some companies who will rationalize and say, “Look, we’ve been in business for 15 years and we’ve never had a written strategy or marketing plan and we’ve done just fine.” This rationalization runs along the same line as the rationalization of the person that’s 50 lbs. overweight. They too say, “I’ve been eating (and not exercising) like this for 20 years and I’m doing just fine.” Yes, fine—right up until the last Krispy Kreme rolls out of their hand during that “unexpected” myocardial infarction.

Other companies proclaim, “Sure, we don’t have our strategy in writing, but we all know it inside

and out.” Writing your strategy down has several benefits. First, it eliminates the latitude of interpretation that always exists when things aren’t written in black and white. Does the VP of Marketing really have the same concept of the company’s strategy as the VP of R&D, or the VP of Sales? If it’s not written down, how do you know?

A key benefit of a written strategy is that the process in doing so creates an interactive dialogue on strategy between the different functional groups within the company. The ensuing dialogue pulls the best thinking from the group and channels it into a strategy to which everyone has contributed. Limiting these strategy conversations to the annual strategic planning pilgrimage is a common error. Jamie Dimon, CEO of J.P. Morgan Chase says,

If you run a business—I think it’s true on almost any level—once a month you sit down and go through it. What are the facts? What are the numbers? What did you say? What happened? What can you learn? What is the competition doing? What’s working? What’s not working?

Another reason companies use to rationalize a lack of strategy is “We just don’t have the time.” Understandable. As we’ve discussed in the past, companies need to focus on their content (products, services, data, etc.). The simple solution is to outsource the facilitation of the strategy-development process.

Outsourcing facilitation ensures significant time isn’t taken away from the group’s crucial day-to-day activities. It also improves the output by having someone to challenge the group’s thinking through an objective, and non-politically-biased approach. Finally, it allows your group to create the strategy and maintain ownership of it without having to spend an inordinate amount of time on the *process* itself.

The Strategy Development Process

When new CEO Edward Breen took over at scandal-ridden Tyco, what was one of the first things he did to right the ship? He created a strategy-development process. “The company never had a strategy-setting process. We now review that with our board,” said Mr. Breen.

Using a proven strategy-development process removes the burden of trying to recreate the wheel each time you want to discuss strategy. It gives you a disciplined, methodical and comprehensive way to think about your business. A process maximizes productivity and improves efficiency because it focuses everyone’s energies on the key areas of the business and doesn’t allow for dialogue detours that are off-subject.

Process Criteria

When you are considering a strategy development process, evaluate it on the following three criteria:

1. Simple—is the process understandable, manageable and easily implemented?
2. Concise—does the process save time in the long run?
3. Effective—does the process provide a tangible output that helps drive bottom-line results?

A process that meets these criteria stands a greater chance of positively contributing to your business. There are a number of complex, measurement-driven processes out there that have done nothing more than muddy the waters when it comes to strategy development.

Process Results

As the Evergreen Project and past experience has shown us, a strategy development process will yield the following tangible and intangible results:

- Increased revenue and profitability
- Actionable strategic plan
- Clarity of direction across the organization

- Focus of limited resources which leads to greater productivity
- Strategic filters for decision making at all levels
- Positioning for competitive advantage
- List of critical issues to guide the management team's future work
- Unity of effort—different functional units all working toward the same ends
- Confidence—morale increases when people have a clear purpose

To test whether or not your group needs a strategy development process, visit www.strategyskills.com and take the Strategy Quiz to find out.

“Here a gobble, there a gobble...”

Qualitative and quantitative research has shown that a clearly defined and well-articulated strategy is essential for the long-term success of an organization. Unfortunately, many businesses continue to operate in a strategy void where they are chasing every opportunity that comes their way. Meanwhile, their lack of strategic vision has made them vulnerable to an increasing array of threats waiting to ‘whack’ them *Soprano*'s style. The companies without a clearly defined strategy in written form should be extra grateful around the Thanksgiving holiday. Without a strategy, sooner or later there's a good chance they'll wind up with the same fate as the turkey on the platter. Stuffing anyone?

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