

Deep Dive: The Three Disciplines of Strategic Thinking

By Rich Horwath



Do you get it? Translation: Are you strategic? How often have you overheard a group talking about a leader and saying, “She/he just doesn’t get it”? Do they say that about you?

Well, are you tactical or strategic? Does it even

matter? Four separate studies on leadership published in the *Wall Street Journal*, *Chief Executive Magazine*, *HR Magazine* and the American Management Association all showed that the #1 most valued skill in leaders today is strategic thinking. Unfortunately, recent data published in the *Har-*

vard Business Review shows only 23 percent of U.S. executives are strong at strategic thinking.

Research by authors Carroll and Mui underscore the importance of strategic thinking at the organizational level as well. The authors studied 750 bankruptcies of companies with at least \$500 million in assets in the last quarter before bankruptcy from 1981 – 2005. Analysis revealed that the #1 cause of bankruptcy in nearly 50% of the cases was bad strategy. In most instances, the avoidable situations resulted from poor initial strategies and not incompetent execution. If the leaders at the various levels of your organization can't think strategically today, you may not have a business tomorrow.

So, yes, the ability to think strategically is essential for individuals and organizations. The real question is how can we continually hone our strategic thinking skills in order to thrive in today's turbulent economic times? The fact is most managers are now required to be more successful with fewer resources. All managers have resources (time, talent and capital) to varying degrees within their organizations. So, technically, all managers are strategists. The reality, however, is that not all managers are good strategists. Herein lies the pearl of great opportunity: the deeper you can dive into the business and resurface with strategic insights, the more valuable you'll become to your organization. Effective resource allocation drives profitability (more resources invested in the right activities) and productivity (fewer resources invested in the wrong activities). The result is a high-per-

formance organization in which all levels of management are encouraged and equipped to shape its strategic direction.

Strategic thinking is defined as the generation of business insights on a continual basis to achieve competitive advantage. Strategic thinking is different than strategic planning. Strategic planning is the channeling of business insights into an action plan to achieve goals and objectives. A key distinction between strategic thinking and strategic planning is that the former occurs on a regular basis, as part of our daily activities, while the latter occurs periodically (quarterly, semi-annually or annually). Unlike the additional work that is cre-

ated by the process of strategic planning, we can understand strategic thinking as using a new lens to view the business. It's not about adding more work. It's about enhancing the view of the work and improving one's ability to perform it.

You've likely noticed during your daily encounters with bosses, colleagues, direct reports, customers, suppliers, and other individuals that strategic thinking comes in varying degrees, ranging from brilliant

to nonexistent. To hone in on one's ability to think strategically, I have taken the results of research conducted among senior managers from 154 companies and have identified four types of strategic thinkers. These will help you better understand how to think strategically and will give you insight into individuals in your organization. Two criteria to consider as you evaluate an individual's ability to provide strategic insight are the "Impact of

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Insights” and the “Frequency of Insights.”

Using the analogy of underwater diving, there are four types of strategic thinkers. The first type is the Beach Bum. Like a beach bum, this manager mentally lounges around and doesn't really contribute any insights to the business. The second type of strategic thinker is the Snorkeler. This type of manager skims the surface of issues. They're the first one to wave their hand in the air and say, "We have a problem" but don't offer any potential solutions. The third type of strategic thinker is the Scuba Diver. Like a scuba diver, when these managers are equipped with the right tools and instruction, they can come up with strategic insights. The final type of strategic thinker is the Free Diver. A free diver can dive underwater to depths of 800 feet on a single breath. These managers generate new and impactful ideas for the business on a regular basis. The research shows only three out of every ten managers are highly strategic, or at the Free Diver level.

The reality is most people can't hold their breath for more than one minute. But, the world record for a free diver holding his breath is 11 minutes and 35 seconds! So why is there such a big difference? Free divers have learned and practiced the key breathing techniques. They've learned how to use their resource, oxygen, more effectively than the rest of us. In business, resources consist of time, people and money. Strategic thinking is how effectively you use these resources relative to the competition in serving customers.

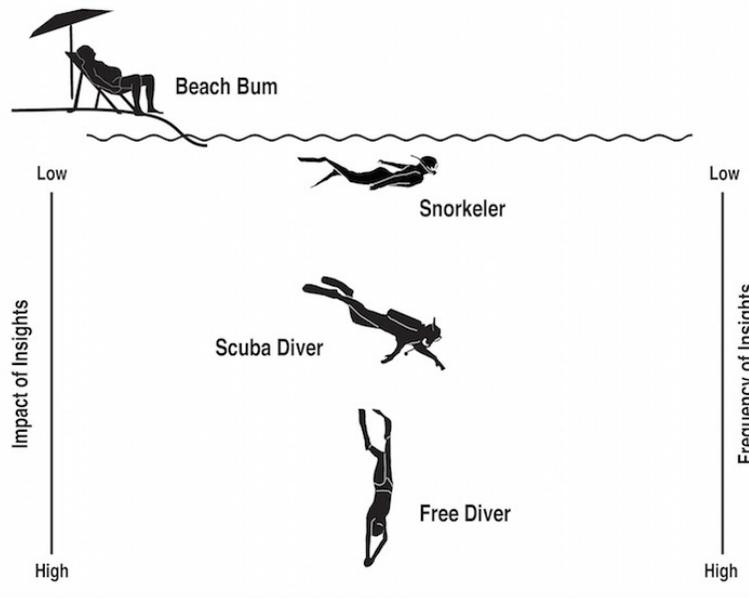
At first blush, it would appear that the only things standing in a manager's way of becoming a Free Diver are adequate knowledge and tools to think strategically on a regular basis. While these do account for a large portion of the cases, a subtler reason also exists. Strategic thinking, and

the actions taken to follow through on it, requires an appetite for risk. Strategy calls for focus and the trade-offs that inherently follow, but many managers decide they would rather play it safe. In most organizations, sins of commission—taking a risk and failing—are punished much more harshly than sins of omission—not taking a risk and missing out

on a great opportunity. With both political (your reputation within the company) and career (not wanting to jeopardize your next promotion) ramifications to consider, many managers consciously opt out of strategic thinking. And that's a shame. As Roberto Goizueta, the successful former CEO of Coca-Cola, points out: "If you take risks, you may still fail. If you do not take risks, you will surely fail. The greatest risk of all is to do nothing."

To maximize your resources and profitably grow the business on a consistent basis, there are three disciplines of strategic thinking you can develop to continually ground your business in solid strategy:

1. Acumen: generating key business insights.
2. Allocation: focusing resources through trade-offs.



3. Action: executing strategy to achieve goals.

Discipline #1: Acumen.

One of the interesting paradoxes of strategy is that in order to elevate one's thinking to see "the big picture," one must first dive below the surface of the issues to uncover insight. A strategic insight is a new idea that combines two or more pieces of information to affect the overall success of the business and lead to competitive advantage. An iceberg illustrates a universal phenomenon when it comes to insights. If the iceberg represents the body of insights for a particular market, all too often companies battle one another using the insights represented by the tip of the iceberg. Above the surface of the water and in plain sight for everyone, these insights require no extra effort to acquire, and offer the path of least resistance to those too lazy to do any real thinking. Since they are readily available to the entire market, they quickly lose value when it comes to developing a strategy steeped in the differentiation required to gain competitive advantage.

Hidden below the surface are insights represented by the largest portion of the iceberg. The large size of the underwater portion doesn't indicate a large number of insights. Instead, this larger portion indicates the greater effect of these insights on the business if they are unleashed.

Acumen Question:

What is the key insight driving this initiative, project or activity?

Discipline #2: Allocation.

While it's one thing to have a neatly written strategy on paper, the truth is the actual or realized strategy of an organization is a result of the resource allocation decisions made by managers each day. Therefore, it is critical to have a firm understanding of resource allocation and how to maximize its potential for your organization. With multi-billion dollar companies such as United Airlines and General Motors going through bankruptcy, it's obvious in today's market that having the most resources guarantees nothing. It's how we allocate resources that truly matters.

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Once the insights have been generated through the Acumen discipline, one has the key ingredient in making resource allocation decisions. The definition of strategy begins with "The intelligent allocation of limited resources...". Resource allocation is at the core of strategy. Discussions of strategy boil down to how to allocate limited resources to maximize business potential.

Allocation Question:

What trade-offs will I make to focus resources?

Discipline #3: Action.

It's often assumed that once a sound strategy has been formulated, the execution of that strategy will take care of itself. Research seems to indicate otherwise. A survey of more than 400 companies published in *Training & Development Magazine* showed 49 percent of business leaders report a gap between their organization's ability to articulate a strategic vision and their effectiveness in executing that vision. Additionally, 64 percent of

executives did not believe their organization had the ability to close that gap. The effective action or execution of strategy involves the discipline to focus on the important issues, not the urgent ones filling up our email Inbox.

Action Question:

What actions can I take to achieve advantage?

Most books and training programs only address the first three levels of strategy: corporate, business unit and functional group. In reality, these are all

subsets of the most important level of strategy: YOU. The individual level is where strategy is actually created. Unfortunately, 90% of directors and vice presidents have never had any learning & development opportunities on strategic thinking. The good news is that by developing the three disciplines of strategic thinking, you can elevate yourself from tactical to strategic. The better news is that in doing so, not only will you become more valuable to your organization, you'll separate yourself and your business from the competition. Do you get it?



Strategic Thinking
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Rich is the founder and CEO of the Strategic Thinking Institute, and has helped more than 50,000 managers around the world to develop their strategic thinking capabilities. A former Chief Strategy Officer and professor of strategy, he brings both real-world experience and practical expertise to help groups build their strategy skills. Rich is a New York Times, Wall Street Journal and USA Today best-selling author on strategy and has appeared on ABC, NBC and FOX TV. His latest book is Elevate: The Three Disciplines of Advanced Strategic Thinking (Wiley). Sign-up to receive your free copy of Strategic Thinker or read his Strategy Espresso blog by visiting www.strategyskills.com