Strategic Thinking INSTITUTE
Sharpening Strategy Skills

Rich Horwath

The Strategic Thinking Manifesto

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%): Research by Mankins suggests that 85 percent of executive leadership teams spend less than one hour per month discussing strategy, with 50 percent spending no time at all. If you don't create the time to think about strategy, it simply won't happen.

2. Commitment (72%): Only 20 percent of workers say they understand how their tasks relate to the organization's goals and strategies according to Covey. If strategy is not translated to an individual or team's daily tasks, then their level of buy-in will be minimal.

3. Lack of priorities (60%): A shocking 95 percent of managers said their company did not have a rigorous and disciplined process for focusing top management's time on the most important issues. (Mankins)

4. Status quo (56%): Strategy inherently involves changes in the way we allocate resources and human beings are generally adverse to change.

5. Not understanding what strategy is (48%): As UCLA professor Richard Rumelt writes, "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." A Harvard Business School study reported that 95 percent of employees in large organizations are unaware of or don't understand their strategy.

6. Lack of training/tools for thinking strategically 48%: Research by Garratt has shown that 90 percent of directors and vice presidents have no training to become competent business strategists.
7. Lack of alignment 48%: Strategies from above and strategies from below can make a manager feel like the meat in a strategy sandwich. Covey confirms nearly 65 percent of employees don't have a clear understanding of their goals, which makes alignment of strategy nearly impossible.
8. Firefighting (44%): In a ten-year study of 35 organizations, researcher Bonn concluded, "The main problem identified by the majority of senior executives was strategic thinking. 'Our senior executives tend to get carried away by details and lose their strategic perspective.'" When a strategic mindset is absent, being reactive becomes the norm and managers bounce from one thing to the next like a bumper car.
9. Lack of quality/timely data & info (36%): An Economist study shows that 62 percent of workers cannot make sense of the data that they receive. If data is not understandable or timely, then it cannot be used as the basis of strategic insights.
10. Unclear company direction (32%): 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. According to Birshan, this lack of direction may in large part be due to the fact that just 19 percent of managers say that their companies have a distinct process for developing strategy.

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 a whopping 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."

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 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 writes, "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 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.

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
Marketing Mgr.	$ 85K	$42.50	250	$10,625	$100,625
District Sales Mgr.	$100K	$50.00	250	$12,500	$125,000
Director	$130K	$65.00	250	$16,250	$162,250
VP	$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. The range of dollarized benefits of strategic thinking for individual managers helps explain in part the positive financial results of the earlier company-level research cited from Harvard. This data showed the ten-year effects of clearly defined strategies versus competitors resulting in a difference of 304 percent in profits, 332 percent in sales and 883 percent in total return to shareholders.

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.

Rich Horwath is a *New York Times, Wall Street Journal* and *USA Today* bestselling author on strategy. As the CEO of the Strategic Thinking Institute, he leads executive teams through the strategy process and he has trained more than 50,000 managers around the world to develop their strategic thinking skills. 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 and his work have appeared on ABC, CNBC, CNN, CBS, NBC and FOX TV. Sign-up to receive your free copy of *Strategic Thinker* by visiting www.strategyskills.com