The Strategic Thinker℠

PURE & SIMPLE℠ Advice To Gain Supremacy Of Your Sandbox

**Issue** 2/09

# Obstacles to Strategic Thinking


Strategic thinking is a fresh approach to the subject of strategy. It identifies key factors that indicate the direction of an organization and it is a process that the organization's management uses to set direction and articulate their vision.

For strategic thinking to be successful, it is necessary to obtain the commitment of the organization's key executives and the commitment of others who will be called upon to implement that vision.

However, getting that commitment is not always easy as there seem to be different obstacles that hinder the process of thinking. This problem led us to probe into the obstacles that get in the way of good strategic thinking.

## The Strategy Suffers from "Fuzzy Vision"

The first observation we made about the behavior of people in top management positions is that they spend a lot of time together — in various meetings and on various committees. Some estimates show that 80 to 85 percent of their time is spent meeting — together.

In the course of those meetings, managers talk to one another. One would expect, after all that talking, that the direction of the company would be clear and that they would all share the same vision, particularly after many years of working together.

Yet, in spite of this, an interesting phenomenon occurs when each member of the management team is asked to describe the company's future and direction. Each person has a different perception!

These different perceptions of the company's future result from the fact that everyone, to some extent, suffers from tunnel vision. Each person sees the company's future profile from his or her own perspective and function.

## Operational Thinking Dominates Management's Time

Even when there is an "unspoken" strategy in existence in a company, there are many interpretations of it. Delving into this phenomenon a little further, we find that the reason is simple — most of the time management spends in meetings is spent discussing operational issues and *not* strategic ones. They always address the *how* of running the business, not the *what*. There are usually a lot of fires that need putting out, such as sales targets not being met, production problems or customer complaints, and those are the urgent issues that attract everyone's attention. The end result is that *Strategic Thinking* ends up playing second fiddle to *Operational Thinking*.


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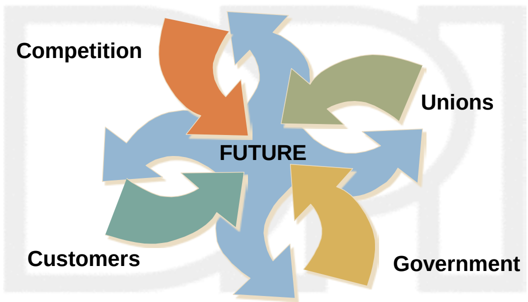
### Strategy Is Reactive, Not Proactive

As a result, there is a tendency to slip into a *reactive* management mode rather than a *proactive* one. The corporate profile starts being shaped by outside forces rather than by management. These forces can be governments, competitors, unions, and even customers. The environment or competitors, not management, molds the company's direction and strategy.

Company's Future is Shaped by Outside Forces

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The U.S. automobile industry has been in the same state for most of the last 25 years. During this time, their strategy has been set and managed by the Japanese. Today, Toyota is the world's number one automotive brand. Where are the likes of General Motors or Ford? Far behind. In the2008 Fortune Global 500 rankings of the world's largest corporations, these companies were ranked as follows in revenue contribution:

| *Position* | *Company* | *Revenues (S$ millions)* | *Profiles (S$ millions)* |
|---|---|---|---|
| 5 | Toyota Motor | 230,021 | 15,042 |
| 9 | General Motors | 182,347 | -38,732 |
| 11 | Daimler | 177,167 | 5,446 |
| 13 | Ford Motor | 172,468 | -2,723 |

General Motors entered the history books last year when it reported the biggest loss ever in the car industry — $38.7billion for the year and was ranked number one on the biggest loser list. Now it tinkers on the edge of bankruptcy. The lesson? Many outside forces will gladly take over the direction of your company should you abdicate your right to do so yourself.

### No Crisis... No Strategy!

Good times are another obstacle that impedes strategic thinking. When times are good, who needs to think about where they are going? The need to think about direction usually surfaces *after* crisis.


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General Electric, which is highly regarded for its strategic planning process, did not become concerned about this kind of thinking until the disaster they had in the computer business in the early 1970s when they wrote off several hundred million dollars. However, this seems insignificant in relation to the latest crises to hit the US market. UBS, the largest Swiss bank, announced that it would write-off a record fourth-quarter net loss of about $12.9 billion, due to its troubled US housing market positions related tithe US subprime mortgage market. Bill Gates, one of the world's foremost strategic thinkers, is of this opinion as well:

> *"My success in business has largely been the result of my ability to focus on long term goals and ignore short-term distractions. Taking a long term view does not require brilliance but it does require dedication. When your business is healthy, it is difficult to behave as if you are in a crisis. That is why one of the toughest parts of managing, especially in a high-tech business, is to recognize the need for change and make it while you still have a chance."*

### Short Term vs. Long Term Thinking

Another obstacle is that many executives associate strategic thinking with long term planning and consider operational planning as short term. Our work indicates that neither type of thinking is time-related, thus there is no ideal planning calendar.

DPI Observation

Each company must evaluate the unique environment that **THEY** operate in

There is no **IDEAL** planning calendar

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“Strategic planning in most companies has not contributed to strategic thinking. The need for strategic thinking has never been greater.”

—**Michael Porter**, in an interview in The Economist

There are some strategic decisions that can be made which will have a short term impact, and there are operational decisions that can have long term effects. The nature of the industry determines the timeframe of both strategic and operational thinking. In the oil industry, one must look ahead 40 to 50 years, because the development of energy resources is a long process. In the garment industry, on the other hand, one may not want to look further ahead than the next fashion cycle — six months or less!

In fact, our work in the financial services industry has shown that this industry has moved away from a 5 year/10year scenario, with 5 years being short term and 10 years being long term, to a 1 year 3 year scenario when it comes to their thinking. The biggest reasons for this are the constant legislative and economic changes that have impacted the financial services industry since the mid 90s. Somehow the business community has developed a fixation around a five-year planning cycle. What is so special about five years? Shouldn’t our planning be more related to our strategic time frame? All that is done with the five-year plan anyway is to update the first year and guess at the last four years. Strategy development and review is not amenable to an annual cycle because the environment is not that predictable. Tying strategy formulation to annual budget exercises ensures failure.

### Perceived Value

There is also reluctance from management to invest their time and money in a good *strategic thinking* session because it is difficult to quantify the value that such an intervention would bring to the team, let alone the organization. It is much easier for the organization to justify an investment in a piece of machinery required in their production process, or an acquisition of another company, than it is to quantify the investment in developing their future *strategic thinking*. *Strategic thinking* is intangible and the effects are often difficult to measure. However, investing in strategic thinking should be seen as an investment and not a cost.

In fact, we challenge any senior executive of an organization to think seriously about this aspect. We believe that an ROI objective has to be set.

We ask that executive, “If you do nothing strategically different and continue to do the same things you would normally do, where would you be?” We also ask, “If you invest management’s time and the organization’s money in a *strategic thinking process* that will clarify the organization’s future, get consensus on what approach will be taken and the commitment of the senior team to deliver, then where *could* you be?” Whatever objective is set by the executive team, e.g. “*double the size we are now in two years*,” that should be the measure used during the strategic thinking process.

### Planning Is Bottom-Up

Most “strategic” or operational planning systems are bottom-up. Every department head is asked to make a recommendation of revenues and expenses for the next year. These systems start in the bowels of the organization and work their way up through vertical or functional silos. The strategy of a company, in our opinion, must come from the top and go down. The only people who have a right to articulate the direction of the corporation are the people who have a real stake in that organization and have to live with the results of their choices and the direction in which they take their company. By using a bottom-up approach, top management abdicates its prerogative to develop an integrated corporate strategy.

### Thinking Is Quantitative, Not Qualitative

The foundation of most corporate planning systems in place today is internally generated data — highly *quantitative* and historical in nature. Most long-range planning systems look back at five years of numbers (history) and extrapolate for the next five years. This kind of planning does nothing to change the “look” or the composition of a business in terms of products, markets, and customers. It also assumes that outside influences will remain the same in terms of competition, government, labor, and resource availability. As such, management fails to take the whole picture into account. These systems are typically accompanied by a need to do a lot of analysis, usually requiring graphs, forms, bar charts, matrices, and volumes of numbers.

### Reliance on Strategic Planning, Not Strategic Thinking

Most organizations we have worked with have very elaborate strategic *planning* systems in place. Strategic planning, however, does not strategic *thinking* make!

Organizations embark on time-consuming planning systems imposed on them by management, insisting that these “strategic plans” be addressed every 12 months. Because of the “fire drill” orientation of strategic planning systems, strategic thinking in many major organizations has come to a standstill. *There simply isn’t time to think strategically*.

America’s obsession with the “fire, ready, aim!” syndrome led to the country’s decline during the 1970s and 1980s. Has this once again happened with the current world economic crisis? Even Michael Porter, in an interview in *The Economist*, admitted that “strategic planning in most companies has not contributed to strategic thinking. The need for strategic thinking has never been greater.”

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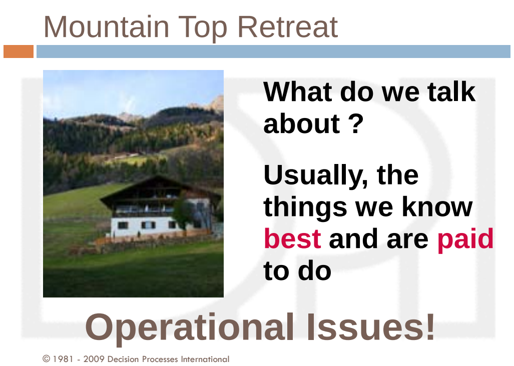
If the preceding techniques are not conducive to setting strategy, then what is? And how does a CEO go about developing and implementing a successful strategy? The process needed to determine the future direction of an organization is not strategic planning but rather, *strategic thinking*. Strategic thinking is a process that enables the management team to sit together and think through the *qualitative* aspects of its business and the environment it faces. The team can then decide on a *common and shared* vision and a strategy for the future of the company.

### Process Itself Is an Obstacle

Although most companies have very sophisticated operational planning processes and systems, they do not have a *formal process* of strategic thinking.

As a result, even when they do wish to spend some time at the "mountain top or Sentosa retreat" to think through "where they are going as a company," they usually do not have a process or methodology for thinking strategically.



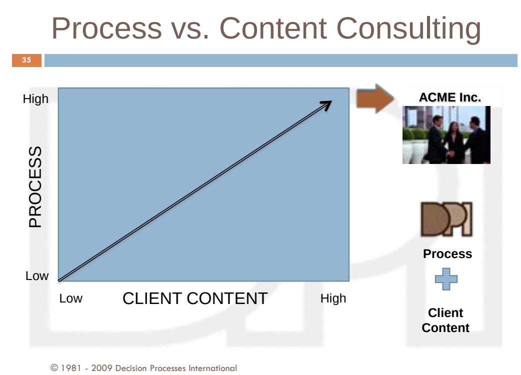

Hence, early in their discussions they are back to discussing operational issues. Some companies have attempted to develop their own process, but they usually combine strategic and operational issues, thus making the exercise laborious and confusing.

Our suggestion is that the processes are *different* and therefore should be *separated*. The factors and elements studied and evaluated in the strategic thinking process are not the same as in the operational planning process. Milton Lauenstein, a strategy guru, concurs.

"Management should understand that strategic planning encompasses two distinct functions: long-range planning and strategy formulation. Confusing these two activities has contributed to the sorry record of strategic planning. They are better performed separately."

### Process vs. Content Consultants

Finally, when the organization does make a decision to engage an outside provider to assist them with their strategic thinking, they are faced with the dilemma of what type of assistance they need. "Are we short on knowledge of our industry and therefore we need some *content* expertise?" or "we have the knowledge but lack a *process* to assist us in gathering our thoughts."




Content consultants vary widely in their approaches to gathering industry data, their analysis of this data, and their interpretation of this information.

The same can be said about process consultants. They also vary in their approaches to the process that they have developed to address a specific question.

The ideal is for an organization to strike a balance between the two. The objective is to be high on content *and* process thereby delivering measurable performance improvement as a result of identifiable behavioral change in the organization through good *strategic thinking*.