Applied Strategy for Business Leaders

Part 1: Testing your Strategy

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Strategy is a difficult process for many executives. It is a topic that is visited perhaps only occasionally by many and is full of jargon and fads offering false hope and easy solutions. A quick look at the Business section of your local bookstore (if it still exists) is quite enlightening. Unfortunately most of this so-called help actually makes it less accessible and harder.

To assist the leadership of corporations in addressing this challenge, I have developed two articles on Applied Strategy for Business Leaders. In the first article, I address:

- Why strategy is an important topic for a corporation that should be given significant attention by the senior leadership of a corporation as a group.
- The Seven Deadly Sins of Strategy that cause many corporations to have a less successful strategy than they should:
  - 'Me too' – following the crowd (or not having a strategy at all)
  - 'High level' – not meaningful enough to put into practice
  - 'Singular' – not flexible enough in the face of changing market conditions
  - 'Isolated' – no considerate of competitor actions/reactions
  - 'No Value' – confusing size/growth/M&A with shareholder value
  - 'Unsustainable' – not based on a sustainable competitive advantage or a true understanding of how you create value for your customers
  - 'Not enough Heart' – not consistent enough with the corporation's skills, capabilities or culture.
- How you know when you've got a good strategy – or when you should be confident you have addressed the strategy issue adequately.

In the second article, I look at the overall question of how to develop a good strategy, the elements that need to be considered and a process for strategy development. Specifically, I address:

- The five components to consider when developing your strategy – and how they need to be in rough balance for sustainability. Taken together, these elements describe a compelling direction for the firm and the ability to take the journey:
  - Opportunities
  - Competitors
  - Aspirations
  - Capabilities
  - Culture.
- A clear and logical process for strategy development – and the depth of this process can be tailored to the specific requirement of your corporation.

Both articles are illustrated with plenty of practical tips and examples and a set of questions that each reader can address to determine how their own strategy stacks up and where they might need to look harder for the insight.

Applied Strategy Part 1: Testing your Strategy

During more than two decades as a professional advisor, I have been very focused on business strategy across just about all kinds of industries and markets – both private and public sector.

In that time, I've seen at least one example of just about everything. I've seen poor strategies and poor strategic processes, good strategies implemented well, some poor strategies that have had remarkably good luck as well as good strategies with bad luck or poorly implemented. I've also had the privilege of helping to develop some strategies that have had outstanding results over long periods of time. Whatever the state of strategy in your own organisation, spending the time and effort to review and improve it, is certainly valuable.

Reflecting on my experience and the need for strategic improvement, I realised that there is far too much jargon, fads and new concepts all offering the ultimate solution for business strategy. This is particularly confusing and challenging for senior executives who have to manage across a very broad range of issues within an organisation and may only confront a tough strategy question every once in a while. A balanced, common sense guide on how to develop and maintain a good strategy is needed.

My purpose in this first of two articles is to provide this practical guide for senior executives to test their strategy. You might want to do a light touch-up or you might have a sense that a more substantial re-thinking is required. Either way, you can hopefully apply these tests to see where or if you might need more work.

The bulk of the discussion will be most relevant for corporations that are dealing with product markets, profit and loss and consider shareholders their most immediate (not only) stakeholders. But, it is equally applicable to the public sector, perhaps with some slight variations in the way you need to think about objectives, measures and stakeholders. It is organised in three discrete chapters:

1. Strategy is important and should be led from the top
2. The Seven Deadly Sins of strategy – how your strategy might be letting you down.
3. The elements of a sound strategy – how you know when you've got a complete strategy.

Chapter 1: Strategy is important and should be led from the top

Strategy is an important topic for corporations. Seems almost like an unassailable truth. But you might be surprised by the range of views you will get on this topic if you asked a sample of senior leaders. Some devote substantial time and energy to developing and maintaining their strategies, while others seem to regard it as a bit of a waste of time or (worse) an academic exercise for the boffins in the economics department or strategy group.

A quick scan of the Business Book section of your local bookstore (let alone Amazon) highlights why such a diverse range of views exist. There are literally hundreds of books on business excellence, developing strategy and winning against the competition.

At a high level, for the last 30 years or so, the business academia has debated the relative merits of strategy versus execution and in doing so have (deliberately or not) constantly pitted one concept against the other. During some of this period, the pendulum has swung firmly in favour of execution being of prime importance and in others it has swung back in favour of strategy. Authors like Tom Peters and Bob Waterman (**In Search of Excellence**), Jim Collins (**Built to Last** and **From good to great***)* and others have tended to focus the light on execution as the primary driver of out-performance. These books have popularised the notion that what differentiates winners and losers in markets is the way companies are run. Never mind that these books almost always used an imperfect measure of success (the share market) to begin with, this view is overly simple and in some cases downright misleading. At the extreme, the argument implied that it didn't matter what industry or segment you were competing in, as long as you out-executed your competition, you would deliver outstanding returns. Maybe the follow-up implication was unintentional, but it of course also tended to suggest that a good strategy was unimportant.

On the other hand, authors such as Michael Porter (a prodigious author perhaps best known for his book **The Competitive Advantage of Nations***,* his articles such as **Competitive Strategy** and a number of strategy frameworks such as the **Five Forces***)* have focused the debate on the value of having an excellent strategy. Again, maybe this line of thinking has had unintended consequences too in that it perhaps under-played the importance of execution of a good strategy.

In reality both strategy and execution are important. It is true that a good strategy not implemented well is virtually useless – so you cannot have a good strategy with poor execution and expect great results. Arguably, you also cannot call it a good strategy if it was not implementable. But also, great execution of a poor strategy will also fail. You must have a good strategy. To be successful, a corporation needs to have both a strategy that gives them the opportunity to out-compete others as well as execution that delivers this advantage.

The debate strongly suggests that strategy and execution are inextricably linked – a point we will come back to later. But for now, we must conclude that having an outstanding value-creating business strategy that a corporation can execute is the goal.

Given this importance, strategy deserves the attention of the most senior leadership in a corporation. This is certainly true in most companies as Boards and investors demand that strategy be led from the top. The implication is that, to the extent that corporations have ‘strategy functions’, they should be very close to the CEO and senior team, and that the strategy process itself should involve a lot of time from senior leaders. Again, my experience with this is quite varied. Some organisations do strategy very well, but in others CEOs keep their strategies in their heads, others effectively outsource their strategic processes to consultants and others keep strategy functions well-down in their organisations. Any of these approaches will lead eventually to poor outcomes and value lost by shareholders.

Questions for you to consider

Strategy is important

- Does your corporation regard strategy as important?
- Is strategy integral to your organisation's management processes?
- Does your corporation revisit strategy regularly

Strategy should be led from the top

- Who leads strategy in your organisation?
- How involved are the senior team in the strategy process?
- How much time is the strategy process given by the leadership group?

Chapter 2: The Seven Deadly Sins of Strategy

Competitive business strategy is part science and part art and it relies on a combination of deep analysis and occasionally on sparks of insight. While it is difficult to be completely prescriptive about how to 'do' strategy, it is very important to understand what makes up a good strategy – or to position it from the negative – what a good strategy is not, or how strategies can fail. My experience, suggests that most strategic failure can be traced back to at least one of the '7 deadly sins of strategy' (Exhibit 1).

'Sin' is a bit of an odd word to use in this context, and it is at least partially true that I synthesised seven different issues and it was convenient to use this term. Yet, the more I reflected on it, the more relevant the term became. The word 'sin' implies that there first of all are specific 'laws' to be obeyed (certainly I believe that in respect of business strategy) and second that it is either ignorance or a deliberate omission on behalf of the strategist to fail to apply one or more of these laws. While not always deliberate, ignorance is no excuse. Also, the other, important implication from using this word is that strategies that embed some of the sins can 'feel good' or look like they are working for a period of time. Sooner or later though, the sin catches up with you.

Exhibit 1

The Seven Deadly Sins of strategy …

#	Sin	Description
1	'Me-too'	Follow the crowd, general trends or 'winging it'
2	'High-level'	Not meaningful enough to put into practice, or not translated into detailed enough implementation plans
3	'Singular'	Not flexible in the face of changing conditions
4	'Isolated'	Insufficient consideration of competitor reactions
5	'No value'	Confusing size/growth/M&A with shareholder value
6	'Unsustainable'	Not based on a solid understanding of how value is created in the long-term or an enduring competitive advantage
7	'Not enough heart'	Inconsistent with aspirations, capabilities, mind-sets or culture – so not tapping into the real heart of an organisation

1. Me Too

A 'me too' strategy is very simply where a corporation decides that it will copy a strategy that already exists in the marketplace without any real differentiation. Most often, this is a sin of omission – in that the corporation doesn't actually have a strategy, they are just following the

crowd. Very few corporations actually set out to create a ‘me too’ strategy, but plenty end up with one. The crucial test for this sin is that the customer experience and the results of the strategy are virtually identical. Some corporations can fall into the trap mentioned above, thinking that a ‘me too’ strategy is actually just fine. Maybe the market is big and they can capture a share of it, maybe the market is protected or oligopolistic and they can get away with an undifferentiated strategy, maybe they think that customers don’t care. In some cases, this can be true, for a while.

In Australia, fuel retailing is a great example where for many years all four majors were practically identical in their strategy which was simply: a move to convenience store retailing, securing the highest traffic sites and rationalising their networks. During this period market shares were relatively constant among the majors and returns were low as the strategy required capital investment, retailing skills that most did not have, and the site rationalisation provided a great opportunity for independents to enter and reduce margins. The big strategic break came when alignment with the major retailers occurred, Caltex aligned with Woolworths and Shell sold their retail franchise to Coles. This fundamentally altered the market structure and dramatically improved returns to these two break-away companies. Those still following the ‘me too’ approach suffered the most.

Retail banking is another example in Australia where a ‘me too’ strategy has largely played out for much of the last couple of decades. Similar strategies around branch rationalisation, cost reduction, fee increases, focus on premium or high-net worth customers, ancillary services and loyalty programs has meant that for most of us, all the banks provide a virtually identical product. Strategically, this ‘me too’ approach has been valuable, because the banks rightly realised that a major threat came from the potential entry of foreign banks and specialist providers and covering the entire market without ‘breaking ranks’ was a very valuable strategy. Whether planned or not, they have been very successful at repelling wave after wave of attacks from foreign banks. Noticeably, one bank has recently tried to break ranks – at least in their marketing message if not in actual customer proposition –and it happens to be at a time when the threat from foreign banks is arguably quite low. It remains to be seen whether this new approach is successful or not, but the implication is clear – if you apply a ‘me too’ strategy, you’d better be very well-prepared for the time that strategies should or do diverge.

There are a number of other industries in Australia that have very strong elements of ‘me too’ in their strategy – even some in professional services.

I should note that the ‘me too’ strategy is not necessarily the same as the ‘fast follower’ strategy, where firms decide to follow other’s innovation in the marketplace with fast replication. The fast follower strategy can be entirely legitimate and sustainable if the follower is able to leverage some other form of competitive advantage, such as market reach or lower costs. Following might be an element of ‘me too’ but is only a strategic ‘sin’ if there is no other competitive advantage to back it up.

The sin of 'Me Too'

- Write down your own company's strategy
- Develop a list of competitors in your market place and write down their strategies (if you have trouble ask customers or suppliers who know you both)
- Note the differences, similarities and ask why?
- Can't see meaningful differences, or customers/suppliers comment that 'you are all the same'? You might have a 'me too' problem

2. High-level

This sin is pretty self-explanatory, but is also surprisingly common. And it can happen on a number of different dimensions.

Geography is a favourite. A strategy to enter China (for example) has all too often been based on macro economic growth numbers in China, or 'if we could get every person in China to buy one red sock each ...' type of logic. In this phrase you can just about enter any product you like – socks, beer, bank account, credit card, insurance policy, mobile phone etc. You can also substitute Queensland, or Western Sydney or the 'youth market' for China above. If it is overly simplistic and high-level, then chances are the most obvious opportunities are the ones that everyone is going after, so even if you do have a product or service that people want, and you are able to compete effectively in the market, then competitive intensity can ensure that you get little or no profit. Certainly many Australian companies have tried and failed with high-level strategies to expand internationally and most have failed because their strategies were too high-level to be meaningful and failed to understand enough of the detail and their own source of competitive advantage.

Another dimension is the market itself. A strategy to enter a new product market cannot be based on high-level assessment of the market growth alone. Growth in a product market – whether it is aviation, building materials, credit cards, mining or anything – does not always imply that there is money to be made. It says nothing of capital or other investment required, customer demands, competitive intensity, sources of competitive advantage etc. There are always winners and losers – even in growth markets, and while it is certainly true that a rising tide can lift all boats, it doesn't necessarily imply strategic success.

The final dimension is in terms of implementation. All too often, implementation plans are high-level, vague and fail the translation test – 'how does my job change as a result of this strategy?' Just like high-level strategies are not enough, high-level implementation plans will fail to make actions specific enough and often, fail to enlist the power of the whole organisation in pursuing a strategic direction.

Often the best, most elegant and insightful strategies sound high-level and simple. Being able to articulate the strategy in a simple clear way is crucial to success and I'm not arguing that strategies should be complicated. But there is a world of difference between a strategy that is synthesised to sound simple and one that is overly simplistic in its thinking or planning. You can usually tell the difference by just asking 'why' consistently. Why this market, why will we be successful, why will

customers choose us over the competition, why won't the returns get competed away, why will we capture the opportunity? High level strategies will not be able to address these questions.

The sin of 'High-level'

- What level of market, customer, geography or product segment is your strategy aimed at? If your market actually has meaningful segments within your strategy's segment definition then you might have a High-level problem. Go back and define your strategy in more detail.
- Are your implementation plans meaningful, actionable and owned by a person or group in the organisation? If not, you might have a High-level problem?

3. Singular

Shell's pioneering work on scenario planning many decades ago is usually cited as the under-pinning of strategy that takes into account a range of different market conditions. Unfortunately, most strategic processes fail to embrace scenarios at all – and many of those that do, don't leverage the true power of scenarios.

Most strategies are based on point-estimates of some future state – be it demand, supply, costs, profit margins etc. These predictions are usually averages taken over some time period and often merely reflect continuation of current state and trajectory. There is usually one guarantee with point-estimates of the future – they will be wrong.

When a range of future states are considered, most commonly these futures are articulated simply as high, medium and low cases and used to determine financial outcomes for the strategy under each type of case. This might indeed apply some sensitivity analysis to your strategy and perhaps help with budgeting but it usually won't make the strategy more robust. They are most definitely not scenarios.

The real power in scenarios is the description and discussion of a scenario in and of itself. Examining the impacts and flow-on effects of $200 oil for example, a prolonged recession in the USA or some other set of economic or social conditions and discussing the likelihood of such events should be an important part of any strategic discussion.

Scenarios must be real and linked with real world events. Don't look for drivers in your financials and adjust them (if you do you will just get sensitivities) but look for real world outcomes and then link them to your financial drivers. This is the best way of making sure that the scenarios are actually plausible. My experience is that when you describe real-world situations, things that might appear highly unlikely (like $200 oil for example) can actually appear sensible. Using one of my examples above, you might describe a scenario in the following way:

- China, India and Brazil continue their growth driven increasingly by domestic consumption. Various other ASEAN and Latin American countries also continue aggressive growth paths helped by demand from their large neighbours.
- A period of extended unrest in the middle-Eastern countries continues as a number of Arab nations push for democracy leading to interrupted supply from major oil-producing nations

- Continued economic weakness in the US and Europe driven by low consumer confidence, significant housing over-supply and the jobless recovery keeps the US$ low.
- In addition, a lack of funding capacity causes the US to stall any plans on Carbon emission reductions and both the US and Europe struggle to invest in future technology that lessen their reliance on fossil fuels.

Following a description like this, you should then have an in-depth discussion on: (a) what might the economic scenario mean for your business and potential opportunities (i.e. $200 oil and how will it affect demand for alternate energy sources); and (b) how likely is it that the scenario might emerge. Then repeat this discussion for a number of potentially different scenarios with quite different outcomes.

In developing your scenarios be mindful that markets tend to have a lot of self-correcting mechanisms so some extreme scenarios can appear less likely. But don't fall into a 'central tendencies' trap and cluster all of your scenarios around very similar outcomes, there is a lot of insight to be had at the extremes. Always make sure you have a spread of scenarios and outcomes. It has been proven that leaders and their teams do suffer from groupthink, and even strategic blind-spots from time to time, so make sure you get people from outside the team or even the organisation to help think through and examine your scenarios.

Finally, you should then make sure that your selected strategy is robust under a range of scenarios – or at least the ones you've agreed are plausible. This doesn't mean that you choose the lowest common denominator strategy, but that you at least have backup plans and alternate options if certain outcomes do eventuate.

The sin of 'Singular'

- Has your strategy been assessed under a range of different scenarios?
- Are these scenarios grounded in plausible potential 'states of the world' that might exist in a reasonable timeframe and do they test the limits of your strategy?
- If not, the you might have a 'Singular' problem

4. Isolated

A common problem with strategies – even relatively good ones – is that they have been developed away from the day to day realities of the business. While some can lack practicality, others can lack a consideration of how competitors, customers and regulators might respond to a change in your own strategy. Many, many strategies are developed under the implicit assumption that every other party in the market continues to act in the way they currently do. This can have devastating results. For example, continuing to raise prices for commodities (whether it is chemicals, steel, iron ore, coal or any other commodity) as demand tightens can look like the right path to maximise returns. But if prices are sustainably above the price needed by potential new market entrants to sustain market entry – and if customers are particularly inconvenienced by the high prices – then this will lead to new competitors in the market bringing with them potentially new (lower cost) technology or just simply, new capacity.

In some cases, these new entrants can be sponsored by customers who feel poorly served by the existing market players. A new entrant into Ammonium Nitrate production at Moura in the late 1990s was sponsored (under-written with a take-or-pay contract) by a major customer who was trying to encourage more competition in the market place. While the competitive threat has been very well-handled in the long run by the incumbent, it certainly caused significant issues at the time. There are plenty of other examples in Australia in steel, glass bottle manufacturing, telecommunications, beer and sugar just to name a few.

Similarly entering or exiting a new market can bring a strong (but predictable) response from existing market players who are threatened by the move. This can lead to extended periods of price wars, or periods of profit reducing excess capacity. Competition regulators are constantly on the look-out for evidence of collusion and anti-competitive behaviour, and it is certainly not my intention to try to encourage any of that here. Competition is needed for vitality in an industry, but too much 'extreme' competition can be fatal for firms and shareholders.

Knowing how your competitors will act and how to out-flank them is a crucial part to developing your own successful strategy. By knowing how they are likely to react, you can adjust your own strategy accordingly and perhaps even take advantage of their weaknesses.

The sin of 'Isolated'

- Have you considered how other parties (competitors, customers, suppliers, regulators) in your industry - or adjacent to it - might react to your strategy?
- Does your strategy explicitly factor these actions and reactions into the intended actions?
- If not, then you might have an 'Isolated' problem

5. No Value

Never confuse size or growth in market capitalisation with shareholder value. Never confuse revenue growth with profit growth. Never confuse profit growth with cash flow growth.

Value-creation metrics are very simple – it is the size of the case flow available for shareholders that is the key. Free cash flow after capital expenditure, financing costs and tax is the metric that you should ultimately be using to measure your corporation's value. Increasing the size of the business by taking on more debt does not necessarily increase the value to shareholders. Adding revenue without profit, adding profit without cash flow or bolting on acquisitions just to get bigger also do not contribute to shareholder value.

Far too many companies confuse these concepts, not helped by elegant and often self-serving arguments from advisors and market analysts. Many companies believe that by acquiring other companies (often at a premium which goes to the acquired company's shareholders) they can somehow create value for their shareholders. Acquisitions can only add value to the acquiring corporation if it is able to make the business worth more than they have to pay for it. This ability to add real value by the acquirer is often handed over to the acquired company's shareholders via the so-called 'control premium'. Among other examples, this is a terrible misnomer. It is effectively the current owners saying that 'yes it is worth more to you, so I will make you pay some or all of that to

me now'. It has become such a widely used concept that the real meaning of it has become somewhat lost.

Likewise many believe that making investments for profitless revenue growth somehow makes the company more valuable. While it is true that revenue growth is important – it must be accompanied by growth in shareholder returns. Unfortunately in many cases the marginal revenue growth actually comes at a loss, or the profit growth requires investment (working capital or plant and equipment) that actually reduces cash flow.

Arguments like 'revenue' momentum or 'bulking up to get onto the index' are used as reasons to pursue this type of growth. Mostly they are fallacious and more beneficial to the person giving the advice rather than the recipient.

The way to avoid falling into this trap is to have a very clear sense of the underlying value-drivers in a corporation – what really makes a difference to volume, margin, capital efficiency etc and how does whatever action you are considering improve these value-drivers. Each value driver can be accorded a 'weight' based on the extent to which a 1% change in this value driver creates additional free cash flow and value to the corporation. These value drivers then need to be linked with value from a customer's view.

To illustrate, let me use a high-level example of the paint industry. In paint, overall volume growth is more or less in line with GDP growth and market shares are relatively stable. Product margins are relatively healthy. If we take the example of the leading paint company that has in the order of 60% market share, there will be a handful of important value drivers:

- Growing the overall market size. As the company with the highest market share, this corporation derives more value than most from actions to increase the size of the overall market (by finding ways to encourage people to paint more often for example)
- Increasing selling price. As the market leader, this company can benefit a lot from an increased selling price as it is likely to flow through to its entire 60% share. Efforts in marketing, product innovation or even retailer negotiation can be highly valuable
- Reducing costs will also be valuable as the cost reduction will be spread on a large market share base.
- Growing market share. Even at 60% market share, additional market share points can be valuable unless it requires substantial increases in marketing costs or a reduction in selling price to achieve it.

The underlying source of value in a strategy is of course what customers' value. Make sure when you are developing your strategies that they are based on a very solid understanding of customers' needs, behaviours and what they are prepared to pay for. And, given the previous discussion about the sin of 'high-level', you must make sure that this understanding is driven down to meaningful sub-segments of customers.

Many strategic initiatives can look like the right thing to do from the corporation's viewpoint but may not actually be driven by what customers really value. As an example, the concept of 'bundled services' often falls into this category where a corporation can offer a range of services to its customer base and attempts to put them together in some sort of bundled, or integrated package.

Often though, the consumers themselves may not see the value in the bundle either because they want different companies to provide the individual components or that they don't need all the services that are being offered in the bundle. Many years on from its inception, the integrated financial services model referred to as bancassurance that bundles banking, investment management and insurance products under a banking umbrella still has questionable value for many customers.

In summary, there are many ways for strategies to be developed with 'no value' – make sure yours is linked to the fundamental value drivers of the corporation and the customer.

The sin of 'No Value'

- Is my strategy based on the fundamental drivers of value in my business?
- Is your strategy going to grow shareholder value (remember that revenue growth is not equal to shareholder value, nor is the size of your asset base or balance sheet)?
- If not, then you might have a 'No Value' problem

6. Unsustainable

The concept of sustainability is extremely important in strategy. To be successful, strategies must be able to be sustained through economic cycles, short-term trends and beyond a single or a group of individual leaders in an organisation. They must also be very strongly based around what customers truly value.

While every economic cycle is different, there is a lot to be learned about strategy by examining who does well in a variety of conditions. Winning strategies are those that are adaptable.

For example, in the minerals industry, astute observers know first of all that the industry is cyclical, driven by cycles of demand (economic growth) and periodic supply constraints that occur when demand and supply are mismatched. While we are currently in the middle of the so-called super-cycle right now, it is easy to forget that preceding it was almost two decades of slow demand growth and real price declines. The same astute observers know that in order to be sustainable through an industry cycle, you need to have resources that are low cost Tier 1 assets as they are typically the only ones that make money through the cycle. They are also the least likely to suffer from health, safety and environment breeches because enough investment can be made through the cycle to sustain high levels of social and environmental performance while other mines will be unable to keep up. The observers also note that except for some very unusual situations, certain commodities act as natural hedges to each other and that for a corporation to be sustainable through cycles it should have a portfolio of Tier 1 assets in a range of these complementary commodities. This long-term sustainable thinking has been behind the creation of some of the world's largest corporations.

Banking is another example of an industry where the cycles can tell you a lot about models of success. One (now former) CEO of a major bank was fond of noting that every decade or so there was a banking crisis, the winners in the industry were merely the ones that were better at surviving

each crisis. Another former CEO also noted that too many banks get focused on marketing and acquiring customers as their strategy and ignore risk management – which he argues is the true underlying competitive advantage for a bank. In hindsight both of these leaders have been remarkably accurate.

Sustainability is also an important concept in embedding sustainable competitive advantage. Some strategies manage to take advantage of an important but short-term trend but once the trend dies out, the strategy dies too. Some strategies are so closely aligned with an individual or a group of individuals that if these individuals leave, the strategy (or competitive advantage) leaves with it. The Funds Management industry or investment banking industry suffers from this 'talent specific' strategy from time to time when certain investment approaches or funds are closely aligned to an individual stock-picker or analyst.

A lot can be learned by focusing on the sustainability of strategies, and particularly looking through economic cycles.

In the long-term of course no strategy is truly sustainable. Virtually every strategy and every corporation will 'fade to the mean' driven by Schumpeter's 'Creative Destruction' as new competitors emerge, technology develops and economic surplus gets competed away. In this context then, strategy needs to be revisited regularly so that it can constantly evolve. This is a slightly different point than having a strategy that is obviously unsustainable, but should lead to the same conclusion – don't have an unsustainable strategy, and even if you have a sustainable strategy, always keep an eye out for changes that could signal your strategy has run its course.

The sin of 'Unsustainable'

- What have the long-term cycles meant for companies in your industry? Go back a long-time in history to examine this if needed (I once went back 130 years)
- What would happen if there was a change in a trend, fashion, consumer tastes?
- What would happen if key people left? Is the capability deeply embedded?
- If the answer to these questions is negative, then you might suffer from being 'unsustainable'

7. Not enough Heart

This is one of the most interesting sins and one that unfortunately is the most commonly committed. It occurs when the strategy is fundamentally inconsistent with the culture or capabilities of the organisation.

Most corporations deal with culture and strategy in very different parts of the company. If they consider the company culture at all, it is often regarded to be a Human Resources problem. It is often regarded as a 'soft', unmeasurable, intangible thing that can only change through a combination of 'changing the people and changing the people'. Strategy, on the other hand tends to be an analytical discipline where MBA graduates analyse facts and figures, examine trends, critically assess competitors, customer feedback and maybe as an after-thought conduct surveys to assess the capabilities of the organisation.

But the two disciplines should be closely linked. A strategy is only as good as the organisation implementing it and a strategy that is inconsistent with the capabilities or culture of an organisation is bound to fail. Corporations do unfortunately pursue strategies that their people have no hope of implementing because they lack the capabilities or because their culture would not support the strategy.

An organisation in professional services that I was very close to for many years provides a good case in point. This organisation has a very strong internal culture, built through decades of developing young, talented and highly motivated young people into leading professionals. Throughout the last couple of decades it decided on two occasions to acquire another professional services firm to enter a new arena of client service. On both occasions these acquired companies were 'killed off' very quickly. Within two years in both cases fewer than 5% of the people in the original firms were still employed – the internal culture of the acquirer ensured that these people were subconsciously but systematically weeded out as they were not of the same heritage or shared experiences.

Most examples are not as stark as this, but there are plenty of examples where Australian companies have tried to enter Asia without having even a handful of people who can speak the language, let alone who want to move to the region. There are others such as an organisation successful in process engineering (a discipline that requires careful risk management and constant tweaking to improve performance and capacity utilisation) attempting to enter a fast-paced consumer-oriented market that required very fast decision-making and commercial sharpness, without having the necessary skills, systems or processes.

It is important to note that neither strategy nor culture are fixed or cast in stone. Cultures can and do adapt over time, and innovative strategies can actually be enabled by an organisation's culture. Toyota, for example has a strong lean manufacturing culture that they have been able to leverage as a winning strategy. I am NOT suggesting that if your strategy requires you to have a different set of skills or culture to succeed than is currently the case, you won't succeed. What I AM suggesting is that if the two are too far out of synch with each other, then you will have significant challenges. Examine this issue closely and if you find a mismatch, then you will need to make a call on either a change in strategy, or a change in the way that the strategy is implemented in order to acquire the culture or capabilities needed as you go.

The sin of 'Not enough Heart'

- Is the culture of my organisation enabling or reinforcing my strategy?
- Is my strategy built off the fundamental capabilities and culture of the organisation?
- If not, then you might have 'not enough heart' in your strategy

* * *

The Seven Deadly Sins of Strategy highlights the types of strategic failures that commonly occur. If at this point you have gone through the exercises with your own strategy in mind, you should now have a pretty clear understanding of your own strengths and weaknesses. As a final exercise, consider your competition and understand what their sins might be. There may be profit in the sins of others.

Sins of the competition – to your advantage

- Conduct the Seven Deadly Sins test on your competition? What are their strengths and weaknesses?
- How can you exploit their weaknesses, avoid their strengths and out-compete?

Chapter 3: Knowing you have a complete strategy

To some extent, you know that you have a complete strategy when you are not committing any of the Seven Deadly Sins. In more detail though, the figure below outlines the criteria you should apply to your strategy to assess how good a job you've done.

Exhibit 2

How you know when you've got a complete strategy

1. It is different from that of competitors and will beat the market, putting the enterprise ahead of major trends and discontinuities
2. It is meaningful and practical at a granular level – and planned in detail.
3. Accounts for and is flexible in the face of market changes and/or shocks
4. Built around a detailed understand of how competitors will act and react
5. Is very clear on how value is created and sustained over time
6. Is sustainable and based on true sources of competitive advantage
7. The strategy and culture are intertwined, and there is true conviction, capability and capacity to act

If you answer 'no' to one of more of the above questions, then you should probably have another rethink of the strategy. In some cases it might be OK to answer 'I don't know yet' to one or more of these questions, but if that is the case then you must have a very concrete plan to develop an answer, otherwise at least one of the Seven Deadly Sins will emerge.

Strategy is not a finite process. The world changes in unpredictable and sometimes unlikely ways, so also make sure that you revisit your strategy regularly. Re-ask these questions, re-test for the Seven Deadly Sins, re-examine the success or otherwise of some of your activities. Don't get bogged down in analysis paralysis – because the best way of learning is by doing it and having a go at executing your strategy. But do keep thinking, keep adjusting and keep improving. Others will always be looking to ways they can beat you, so you'd better practice by being at least one step ahead at all times.

* * *

In summary, many strategies are flawed. The flaws can be minor and not cause a great deal of concern, or they can be more serious – of the Seven Deadly Sins variety. Analysing your strategy and examining it for flaws can be a very helpful step towards addressing issues of great importance to your corporation.

About the Author

Adam Lewis is Chairman of Cast Professional Services. Adam has extensive consulting experience at the most senior levels of corporations across a range of industries including: metals, mining, chemicals, manufacturing, telecommunications, retailing, banking and government.

His particular expertise is in business unit and corporate strategy, including game theory and competitive analysis, as well as organisation redesign. This experience has been developed in markets including Australia, New Zealand, USA, The United Kingdom, The Netherlands, France, Belgium, South Korea, Japan and Singapore.

Adam spent 20 years as a management consultant with McKinsey & Company, where he was the managing partner of Australia and New Zealand from 2002 to 2008. Adam was also a member of McKinsey and Company's global personnel committees and Asia Council governing body

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