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Does Strategy-Making Have to Be All That Strategic?

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OVERVIEW

When corporate executives hear the term "strategy-making," many of them reach for the aspirin. Strategy-making conjures images of massive data analysis efforts, indecipherable PowerPoint decks, and money spent on people who at the end of the day don't typically get it right. And by the way, where are the results?

In this article, James E. Bennett shares his life-tested, client-confirmed views on how to make better strategic decisions by organizing all strategic thinking under the umbrella of ***institutional strategy.*** Institutional strategy is not a specific set of tools or techniques. Rather, it's a way of approaching strategy-making from the executive level. It is not so much a tool kit as it is a matter of perspective.

Jim has refined his approach to institutional strategy as an integrating concept during his 40 years of consulting and executive management. What makes Jim's perspective unique is that he was present at the birthing of many of the strategic concepts that have become accepted wisdom. In other words, unlike many who pontificate in print about the nature of strategy, Jim was not a sideline observer of the struggle to define the discipline of strategy. Jim was a player. His views are from the perspective of one who helped shape the game that defined business strategy.

What follows is a brief history of the evolution of business strategy, an overview of Jim Bennett's institutional strategy framework, and a discussion of why frameworks matter to executive decision-makers.

DOES STRATEGY-MAKING HAVE TO BE ALL THAT COMPLICATED?

The concept of strategy has a long history.[i] The ancient Greeks coined the term to denote someone in charge of armies. Whether called an art or a science, the concept of strategy remained under military control until the mid-1940's.

Business schools, management consultants, and book writers have since convoluted the term with meanings never imagined by even the most creative military strategists.

Harvard Business School faculty traditionally approached strategy as the outcome of "policy" decisions made by corporate senior executives. Through the 1950's, MBA students were taught that strategy was uniquely interpreted by each organization at the confluence of external opportunities and risks, and internal corporate resources: SWOT. Each firm's choice of products and markets was institutionally specific.

In the late 1960's, the concept of strategy as corporate portfolio management emerged as a lucrative discipline. The Boston Consulting Group pioneered this view of strategy in their practice of consulting as "the business of selling powerful oversimplifications." The BCG growth/share matrix addressed two fundamental concepts: the attractiveness of markets and a firm's relative position in those markets. Many leading consulting firms developed their own versions of the growth/share matrix. Portfolio management became strategy on a grand scale.

On a granular scale, Ted Levitt, Igor Ansoff and others contemporaneously argued for strategy as a function of product/market fit. McKinsey & Company stumbled onto the discipline of business unit strategy while working for GE in the early 1970's. Industrial economists at Harvard empirically evolved the view of strategy as an outcome of mobility barriers. Michael Porter popularized this theory of strategy as industrial organization with his landmark book, *Competitive Strategy* (1980).

Responses to Porter's structural view of strategy resulted in the development of a new theory that focused on relative costs, geographic location, and customer relationships as drivers of strategic differentiation. The resource-based view of the firm (RBV) emerged in the 1980's as a direct challenge to Porter's view of strategy as industry position. For the RBV theorists, strategy derives from a set of core competencies the firm can develop, defend, and deploy over time into multiple product/market combinations. And then there are the game theorists...

STRATEGY-MAKING DOES NOT HAVE TO BE THAT COMPLICATED!

Without argument, strategy-making is multi-faceted. The traditional focus in corporate strategy has been on thinking through "Why are we doing this?" and "Where is it going to get us?" In business unit strategy, the focus has been on thinking through "Where do we compete?" and "How do we compete?" Product market strategy-making concentrates on "Who do we serve?" and "What do we serve them?" Deciding, "How do we allocate resources most effectively?" drives all strategic analysis. The problem is that the multi-path strategy-making process has tended to create rancor among various stakeholders. This is especially true when there are not enough resources to go around.

Jim takes a conciliatory view of strategy making. He sees all strategy-making efforts in the context of the institution's effort to achieve its mission in the world. The principle underlying this simple but powerful insight is that institutions generate strategy, and the corresponding organizational capacities to accomplish those strategies, through the expression of their purpose, aspirations and commitments. Bennett's perspective of strategy as an institutional manifestation rectifies the various "strategy as something" controversies.

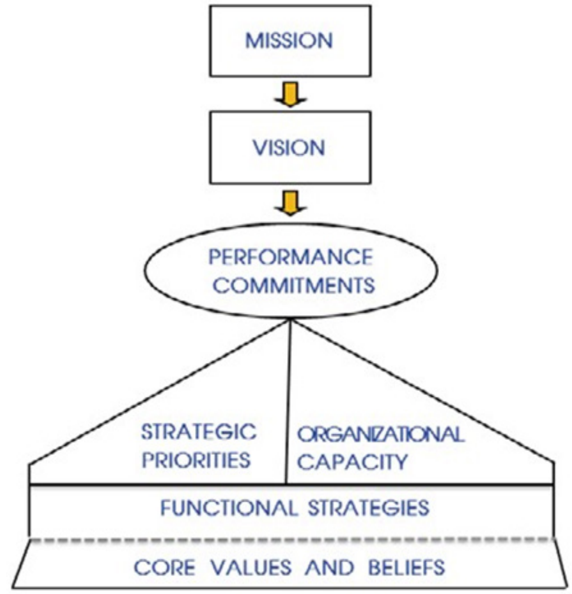
Jim suggests the institutional strategy approach can serve as a general strategy-making framework. "You don't have to be a corporation," Bennett says. "This model works for any kind of institution. Corporation. Foundation. Professional services firm. School." Furthermore, it provides a means for strategy makers at all levels to agree on "What the heck are we trying to accomplish?" In the end, the only meaningful test of strategy's effectiveness is whether the institution got the right things done.

HOW INSTITUTIONAL STRATEGY FOCUSES EFFORT ON WHAT NEEDS TO GET DONE

Jim Bennett's view of institutional strategy consists of seven components. Don't bother looking for "corporate strategy" or "business unit strategy" or "product/market strategy" as a specific component of this framework. Rather than separate them out as distinct entities, Jim places all such strategic initiatives into the area he calls "strategic priorities." For Jim, strategy-making is not about using any set of specific techniques. It's about using the tools you need to accomplish the goals of the institution.

Regarding lumping all of the strategy-making disciplines together under strategic priorities, Bennett says, "They are fully compatible under the same umbrella of thinking. The strategies are different. What you do is different. But why you do it is the same."

The diagram in the next column depicts Jim Bennett's institutional strategy framework. We'll consider each component in turn.



MISSION

The institutional strategy framework leads with the question of why. In significant ways, Bennett's framework mirrors the thinking reflected in Peter Drucker's famous *The Five Most Important Questions You Will Ever Ask About Your Organization*. Both frameworks begin with the question of mission. Mission addresses why an institution exists. Jim asks, "What is your reason for existing in the world?"

Bennett frames his definition of mission in terms of the institution's enduring purpose and role. Mission answers the questions:

- Why are we here?
- Why do we deserve to exist?
- Why is the world or life better because we are around?

If you can articulate why you exist as an institution, the answers to questions related to "What should we do?" follow more easily.

VISION

According to Bennett, vision is defined as "a set of aspirations by which you judge your success at some future point in time, say three to five years." Vision is what the institution becomes as it fulfills its mission. Vision provides a set of stretching aspirations to achieve in the next era of the institution's development.

Differentiating "mission" and "vision" can lead to confusion. The words are freely interchanged in daily use and in business literature. Companies often have "mission statements" and "corporate visions" that say exactly the same things. Dilbert creator, Scott Adams, has made a mockery of mission statements by offering an online mission statement generator. So what is the difference between a "mission" and a "vision?" And why does it matter?

Jim draws out these differences by referring to a project he conducted for a college preparatory school for boys. The mission of the school – its reason for existing in the world – was captured by the idea of "developing promising and motivated boys into accomplished and independent young men who aspire to make a positive difference in the world." The mission articulates why the school exists. Mission embodies a profound sense of purpose. It is the "why" upon which the "what's" are based.

The vision of the school was developed in answer to the question, "What will we have become?" It's a past tense perspective. What did we accomplish? What did we achieve when we grew up?

The school articulated its vision in four parts:

1. Distinguished by the quality and dynamism of the teaching.
2. Appreciated for the challenge and sophistication of the program.
3. Recognized for the care and support given to each boy.
4. Credited for the successes of its diverse student body.

Jim emphasizes that vision usually involves only a few sentences. Each of these sentences supports the mission of the institution. Both mission and vision must have deep meaning for those who will help to realize those ideas. And they must be distinctly different in terms of the way they are expressed.

PERFORMANCE COMMITMENTS

The next rung in the institutional strategy framework addresses the question, "How do we turn mission and vision into something that tells us what we are going to do?" Performance commitments provide the answer to this question. Performance commitments make the institution's reason for existing, and the vision of what it will become, tangible and specific.

Performance commitments provide the metrics for getting real work done. Leading companies often set such commitments in three broad areas: financial results, customer engagement and employee performance. Defining commitments in terms of financial, customers and associates raises the question of how commitments are different from goals and objectives.

Bennett says, "I use the word 'commitment' very deliberately to say: This is what we are committed to doing. This is how we will determine our strategic priorities and develop our organizational capacity to deliver those commitments." Commitments increase the stakes over goals and objectives. Failing to achieve goals and objectives gets people chewed out. Failing to achieve commitments gets people fired. And if it doesn't, it should.

Jim takes commitments seriously. He's walked the talk. He relates the story of serving as a senior executive of Key Corp., at the time the 10th largest US bank. He says of that experience, "I made a commitment to grow the earnings of the retail bank at some outrageous rate for three to five years. That wasn't a goal. That was a commitment. So I ran the place to make sure we did that. You tell analysts. You tell employees. And you just go get it done. Otherwise, you should not have made the commitment."

Is a commitment the same as a BHAG (**B**ig **H**airy **A**udacious **G**oal from Collins & Porras, *Built to Last*, 1994)?

Jim says, "I'd see the BHAG up at the vision level. For example, you might have a BHAG like 'We will become the best of breed at XYZ in three years.' What makes us think we can do that?" Performance commitments drive the institution's actions to turn vision into fact. They represent the milestones of accomplishment. They are the metrics of completion. They tell us whether we succeeded.

Performance commitments in turn generate the next two elements in the institutional strategy framework: strategic priorities and organizational capacity. Both elements are needed for the institution to achieve its mission. Both are necessary to articulate in order for the organization to measure its progress. We will examine strategic priorities first, and then shift our discussion to organizational capacity.

STRATEGIC PRIORITIES

Jim notes that strategic priorities bring us back to considering the fundamental substance of the businesses we are in. He says, "That's what most people think of first as strategy."

The distinguishing feature of the institutional strategy framework is that all strategic initiatives – whether at the portfolio level, the business unit level, or the product/market level – are framed as functions of the performance commitments of the organization. In other words, strategy flows from mission, vision and performance commitments.

Bennett explains that strategic priority for a multi-business company would be to execute a set of outstanding business unit strategies individually for each business in terms of where and how to compete.

The power of addressing the various components of strategy as a set of institutional priorities comes from focusing managers on a narrow range of tasks. Bennett asks, "What are the four to six most important things the business must do to succeed?" He illustrates the point about focusing by recounting how Jack Welch, one of America's most iconic CEOs, articulated GE's strategic priorities by making his managers either achieve one of the top two positions in a market or exit it. Win, show or place? No: win, show or get out! Any questions?

Setting priorities makes performance commitments specific. Priorities establish boundaries, focus attention, and inform the allocation of resources.

ORGANIZATIONAL CAPACITY

Organization capacity complements setting strategic priorities. In fact, they are more than complements. They are the left and right hands for getting things done. In addition to the framework described above, Jim is also one of the fathers of McKinsey & Company's 7-S model, which states that there are seven internal aspects of an organization that must be aligned for the organization to be successful (strategy, structure, systems, shared values, skills, style, and staff). Jim says,

"Organizational capacity is the skills and other attributes of an organization that lets you get the strategy done."

Bennett notes that people understand organizational capacity as building an effective organizational ecosystem. He suggests that organizational capacity requirements should be stated as the four to six most crucial actions the institution must take to build on – or to build up – the human and operational capacity to make implementation happen. Fans of the resourcebased view of the firm will recognize how constructs such as core competence and unique assets link to strategic priorities through the consideration of organizational capacity.

FUNCTIONAL STRATEGIES

Strategic priorities and organizational capacity come together in the realm of functional strategies. Bennett notes that at some point every business breaks down to functions. "Functional strategies are the actions you need to take in each major function of the business to deliver against both strategic priorities and requirements on an operations level."

Bennett elaborates, "Functional strategies are mirrors of strategic priorities and organizational capacities. They are like holograms. Each functional strategy constitutes a fragment containing the whole of the institutional strategy. Functional strategies are what you have to do across the organization with people who tend to be organized into functions. Finance. Marketing. Operations."

He illustrates this point by offering the following example. "Suppose we have a strategic priority to take 20% out of our cost base. So you start thinking about what that might mean for the supply chain. For the purchasing group. For the manufacturing operation. What does each function have to do to achieve that strategic priority?" Functional strategies are about action. What has to be done? Who has to do it?

CORE VALUES & PRINCIPLES

The final component in the institutional strategy framework is core values and principles. These are the shared beliefs that guide individual and group behavior within the context of the other parts of the framework. Core values and principles form the connective tissue among the parts of the framework. They are foundational to the institution's culture.

Jim notes that generally "values are more like teamwork, mutual respect. They tend to be shorter. And they tend to be similar if you compared the list across various organizations." Principles, he says, "might be more about how we decide to do business in this enterprise." Principles are likely to be longer statements or more institution specific.

Jim illustrates this point by citing McKinsey & Company's code of conduct versus the "One Firm" concept, or the concept that all McKinsey offices, practices and employees are part of one global firm rather than separate office pools. Both are part of the Firm's core values and principles. Still, he sees the "One Firm" concept as somehow different than the principles embedded in the Firm's code of conduct. "It leaves more room for definition than you normally get," he says. He also suggests taking a look at how Aetna's set of guiding principles are derived from its primary goals and values to see another example of how values tie into the institutional view of strategy.

The key takeaway about values and principles is that they, along with mission, are essentially bookends for the activities of the institution. Mission is the "why do we exist?" Values and principles express "how we go about our business." Articulating mission and values are complementary and necessary strategy-making activities. They are the alpha and the omega of institutional strategy.

DO WE REALLY NEED ANOTHER STRATEGY FRAMEWORK?

At the conclusion of our conversation, I asked Jim, "Given all that has been written about strategy, why do we need another strategy framework?"

Jim responded by stating, "The one good thing about frameworks is that they take a completely messy reality and turn it into something that people can understand and act on."

He relates his experience at McKinsey & Company when those involved in the Excellence project were trying to make sense of the findings from the study. Jim credits Tony Athos for asking them, "How can we communicate this in one page?" Athos was an HBS professor who pioneered the Organizational Behavior course and was co-author with Richard Pascale of The Art of Japanese Management. The McKinsey team responded to Athos's question by creating the 7-S model.

Jim readily agrees that frameworks can be gimmicky. Referring to the 7-S model, he says, "The reason 7-S is durable is that it's a frigging good framework." He attributes the 7-S framework's durability to the fact that it's MECE (mutually exclusive, collectively exhaustive) and that it's good for diagnosis and action. A good framework allows you to assess where you are and points you to where you need to go.

Closing the conversation, Jim provided the following thought: "A good framework is really worth its weight in gold. It enables progress. It helps people know what they are dealing with in each category. It enables them to communicate what they are talking about to others, particularly with boards of directors. So a good framework is one that is effective at getting work done and allowing communication to take hold."

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i This article draws its historical references primarily from Pankaj Ghemawat's working paper "Competition and Business Strategy in Histori in Historical Perspective" dated July 1997, revised April 2000, from the Harvard Business School Competition & Strategy Working Paper Series,

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BENNETT MCCLELLAN has over 30 years of corporate and consulting experience. Most recently, he was a Managing Director in PricewaterhouseCoopers' Media & Entertainment practice. Bennett has also held management positions with leading entertainment companies, and has worked as a consultant for McKinsey & Company and Arthur D. Little, Inc. He also serves as a freelance journalist, and has had over 100 articles and editorials published. Bennett holds a PhD from Claremont Graduate University, an MBA from Harvard Business School and a BA from University of California-San Diego.

JIM BENNETT draws on over 40 years of experience as a consultant, Senior Executive, and board leader in both the corporate and nonprofit sectors. Jim serves as the CEO of two early stage internet companies and the Chair of a third. He previously served as a Senior Executive Vice President at KeyCorp and was a member of their Executive committee and Chair of Retail Banking. Before this, Jim spent 30 years with McKinsey & Company where his work spanned Strategy, Operations and Organizational effectiveness. As a Director with the firm, he ran the Cleveland office and held several leadership positions including the managing partnership of the Canadian and Midwest practices, membership on the firm's worldwide executive committee, and membership on the firm's shareholders committee. Jim holds a JD from Harvard Law School and a BA from Cornell University.

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