

STRATEGY

One of the key areas where the benefits of a “values-based” style, really reaps rewards is in the development of strategy. Few businesses can afford to rest on their laurels. Past success is no guarantee for the future in a fast changing global economy.

Put out of your mind the word ‘Plan’ It’s a misnomer to talk about a strategic plan. You can’t build a detailed plan for looking into the future. First develop a strategy, an exciting direction in which you wish to travel and only then start the planning. A confusion of the concept will restrict your business to dull incrementalism and give the competition the chance to leave you in the dust.

Strategy is no longer a visionary moment of the Hero Leader. Its not eureka! Visions are closely associated with dreams, and dreams are individual and you can't do a lot about them. Modern strategy is about creating foresight and foresight can be worked on.

Let's review some key components of the “values-based” style. Personal and corporate values are aligned. Big Hairy Audacious Goals are agreed to inspire everybody. People are valued and supported in a person centred style with coaching. Motivation levels are monitored to help managers see where they can do more to release the potential of their staff. If all this is happening then we can expect everyone to be thinking about how to help the business become more and more successful.

The Hero Leader of old is now no longer needed and the new leader is no longer alone but surrounded by people who can contribute to strategy. Why on earth would a business not want to use all this additional brainpower and knowledge to develop its strategy?

The challenge comes in liberating the company's creative potential in a structured way. In 1994, Hamel and Prahalad published their work on “core competence”, and later their acclaimed book “Competing for the Future”. Their work broke new ground in strategy. I have taken their insights and created a single diagram.

Diagram 1

		Market	
		Existing	New
C O R E C O M P E T I T I O N	E X I S T I N G		
	N E W		

Later I will attach to the diagramme the six key questions that a company should attempt to answer in developing new strategy. The very core of the process though is ongoing; strategy is not created in a single blinding moment of brilliance. It is a collective continuous effort.

But first I want to place in this grid four mega questions that Hamel and Prahalad would have us consider. These questions help us understand the different quadrant and the strategic process.

Diagram II.

		Market	
		Existing	New
CORE COMPETENCE	EXISTING	What is the opportunity to improve the company's position in existing markets by better leveraging its' existing core competencies?	White Space What new products could we create by imaginatively re-deploying or recombining our current core competencies?
	NEW	What new core competencies will be needed to protect and extend he company's current markets?	Mega – opportunities What new core competencies would the company need to build to participate in the most exciting markets of the future?

The boundaries between each quadrant can initially be a cause of frustration. But the boundaries provide a useful friction. They are like the grit in an oyster that is required to produce a pearl. Wrestling over the boundary issues people become more acutely aware of the definition of each quadrant. And this clarification of thought is very useful when looking into the future. Quite often it is in the gap between two products or industries where inspirational products and services are created.

In the physical world, convention says there are solids and fluids, but in a study of the definitions a physicist realized that the boundaries were not precise, and came up with a notion of a squishy. For this he won the Nobel prize for Science and created a new area for physical research which itself spawned a number of products in the modern world.

There are a number of pre-conditions that help employees engage in strategic thinking. Firstly, they should be encouraged to exercise a child like sense of curiosity about the future. Secondly, they must be given access to information that helps them think realistically. Thus open book accounting becomes a useful tool. People need to know comparative and alternative costs when thinking about new products and services. It is also helpful to have a strategic research facility that can provide information about the competition and the size of markets. But this in one sense is detail. One does not need all this information to look into the future and see the development of exciting new markets. Cultural and social awareness is a good starting point, and cultural, ethnic and gender diversity in the workforce helps this process.

The six key questions that guide this discussion and provide a consistent framework in which strategic work can take place are placed here alongside the grid in **Diagram 3** (see below) to help consideration about what should be placed in each quadrant.

This type of strategic work can be undertaken inside a company. However, an external facilitator can be very useful in both provoking and encouraging creative thinking. If they come from outside the business area, they bring in innocence and curiosity that can open people's thinking process and take it in new and innovative ways and directions

The questions about developing foresight and the strategic intent lay slightly apart from the grid itself, but as discussion and work evolves around the grid, new insights and creativity will inform both the process of foresight and the development of the strategic intent.

Diagram 3

		Market		
		Existing	New	
CORE COMPETENCE	EXISTING			1. What are your 'core' competence?
	NEW			2. What competencies must you build?
		3. What are your current markets?	4. What are your target markets?	

5. How will you develop foresight?

6. What is your strategic intent?

You already have enough information to start looking at strategy using this last diagramme. I would recommend spending some time working with colleagues on the four quadrants now, you may provoke some frustration as to what some terms mean, and uncertainly as to what goes in what square. This will prepare fertile ground for a more detailed discussion on the following topics.

Core Competence

This is the key area which Hamel and Prahalad so famously developed. It is worth spending some time trying to understand what it means to your business. People are often surprised at the results.

You might find that deepening an understanding of your competence could lead you into a different market or a realisation that you don't have the right competence to compete in your current market. Both realisations can help you develop a better strategy.

A Competence is a bundle of skills and technologies rather than a single discrete skill.

A core competency represents the sum of learning across individual skill sets.

Eg Federal Express

Package routing and delivery
Integrated bar-code technology
Wireless communications
Network management
Linear programming

Meta competencies:	Logistics
Core competence	package tracking
Constituent skills	bar coding.

To manage a company's stock of core competencies leaders must be able to disaggregate components all the way down to the constituent skills.

Core versus non-core

What competencies are at the centre of a company's long-term success?

To help identify your company's core competence try applying the following three tests:

1. **Customer Value:** This test says that a core competence must make a disproportionate contribution to customer-perceived value. Here are some useful questions
 - 1.1. What are the value elements?
 - 1.2. What is the customer actually paying for?
 - 1.3. Why is the customer willing to pay more or less for one particular product or service than another?
 - 1.4. What value elements are most important to the customer and thus make the biggest contribution to price realisation?
2. **Competitor Differentiation** This test says that a core competence must be competitively unique
3. **Extendibility.** A competence is truly 'core' when it forms the basis for entry into new product markets.

What is not a core competence?

It is not an asset in the accounting sense.

Thus factories, distribution channel, brand or patents are not 'core' competence.

Foresight

Foresight is one of the most exciting concepts in strategy. The world is far too complex for a single individual to understand all the forces that shape the business environment. It's imperative that everybody is engaged in developing foresight. The concept of 'Values-Based' leadership has evolved since Hamel and Prahalad broke the mould on strategic thinking and combining the two ideas together where specifically the levels of employee motivation are much higher offers an exciting opportunity to engage everyone in the business in a continually process of developing foresight. After all now everyone is committed to a successful future together.

The following section are intended to help you introduce the process of foresight into your business.

Business Foresight

The goal of business foresight is simple:

- To build the best possible assumption base about the future and thereby develop the prescience needed to proactively shape your evolution.
- It is about creating intellectual distance from your competitors and setting the agenda for that competition.

There are three questions to answer:

1. What new types of customer benefits should you seek to provide in 1,3,5,10 or 15 years time? (Choose a time scale that relates to the speed of product development in your sector.)
2. What new competencies will your company need to build or acquire to offer those customer benefits?
3. How will you need to reconfigure the customer interface over the next few years?

Aspects of Foresight

- ◆ Visions denote dreams or apparitions where as foresight can be worked on.
- ◆ Business foresight is based on deep insights into the trends, demographics, regulations and lifestyles that can be harnessed to rewrite the rules and create new competitive space.
- ◆ Any business that has not made investment into creating foresight will be at the mercy of competition.
- ◆ What is required are business leaders who can escape the orthodoxy of the business current concept of itself.
- ◆ The quest for business foresight starts with what could be, and then works back to what must happen to bring it about.
- ◆ One secret is to approach the issue with childlike innocence and a deep and boundless curiosity. A willingness to speculate about issues in which you are not yet an expert.

The business must escape from the restrictions of its current 'served market', current products, and existing price relationships.

- ◆ Foresight must enlarge the opportunity horizon. This requires leaders to look at the business as a portfolio of core competencies rather than a set of business units. Being aware that competencies evolve while markets mature.
- ◆ When this view is adopted then a whole new range of opportunities open up in what is known as the 'White Space' between business unit based products.
- ◆ It is the marriage of core competence and functionality thinking that points firms towards unexplored 'White' competitive space.

Building Foresight

Half-day sessions on strategy are totally inadequate for the purpose of developing foresight.

Consider:

What are the forces already at work in your industry that have the potential to profoundly affect your business?

Could you sustain a debate on these issues for a full day with the senior executives in your business?

Could the same executives sustain an 8-hour debate about the allocation of overheads, sales targets and product transfer prices?

Business foresight is about learning and exploring and requires week or months not hours or days.

To gain business foresight senior executive must have the curiosity to explore deep and wide the future possibilities and the patients to work at the issues long and hard.

Its hard work but it can also be fun and very exciting. The danger about offering examples is that by the time someone reads them the future has overtaken us. However, at the moment the computer/telephony/medical sectors are looking at ways to monitor patients at home and relay information to base stations where clinical triage can take place and interventions planned. It offers the possibility of saving vast amounts of money in hospital admission and providing a better patient experience. Most companies are working on computer-based solutions linked to broadband Internet transmission. But what is the future? Would you expect an intervention from pharmaceutical companies? How would you find out that one company is developing a monitoring and transmission device for heart rate, temperature and breathing rates that they plan to insert in current medication (a pill).

You would need eyes everywhere. So develop foresight broadly across you company.

Strategy as Stretch

With the speed of change in business accelerating all the time it is important not just to grow within your resources but to grow your resources.

Strategic Intent:

This is where existing resources are inadequate to meet the identified opportunities.

Traditional strategy has been a 'fit' strategy where current resources are sufficient to the envisaged task.

Strategic Intent is about passion and heart. It supplies the sense of direction, discovery and destiny.

Strategic Intent aims to create employee excitement not just satisfaction.

What would be the 'Strategic Intent' for your company?

Unless you are working consistently to understand the 'White Space' you are very unlikely to develop a profitable strategic intent. You may well wish to explore processes for developing creative thinking. Tools to shake up your employees ideas to get them investigation and exploring outside you immediate business environment.

Strategic Architecture

Strategic Architecture is a high level blueprint for the deployment of functionalities, the acquisition of competencies and the reconfiguration of the customer interface.

It is not a detailed plan.

It identifies major capacities to be built but does not specify exactly how they are to be built.

Creating a detailed plan for a 10 to 15 year competitive quest is impossible.

Insisting up on exactitude before embarking on a new strategic direction is a recipe for inertia and incrementalism.

Comment:

It is common for companies to set ambitious goals to increase revenue over a five-year period but to have devoted no intellectual effort to thinking through the required capacity building programme.

It is common to have grand long-term goals and short term plans with nothing in-between.

The long term and short term should dovetail:

Example

The Mobile phone:

To gain a share of the mobile phone market, a company had to start working on building it capacity for: radio, digital, miniaturisation, display and battery a long time ago.

Strategic Architecture identifies what must be done right now to be competitive in 5, 10 or 15 years time.

Resource Leverage

The idea of resource leverage is self evident, what is not so obvious is the track record of resource poor companies out performing resource rich companies over a period of 5 or more years.

Thus just because a bigger company may be market leaders now should not discourage you from setting a competitive goal to outperform them in 5 years time.

Part of the answer is to utilise your resources to the maximum using the following 5 focuses.

1. Concentrating Resource on key strategic goals
2. Accumulating Resources
3. Complementing resources
4. Conserving Resources
5. Recovering Resources

The question is:

How can you do this in your company?

To provoke your thinking:

Many business need to spend a lot of money on advertising. But advertng media is changing rapidly. Buying advertng space in the conventional market of TV and te printed press is not longer the only option. Have a look at what going on in around pavement advertising using reverse graffiti. This offers an inexpensive communication channel where small companies can compete with small budgets.

Or look at the developing marketing techniques around social networking sites.

Bringing it all together.

Now you have considered some of the detail of developing a strategy you might find it useful to think through the following diagram which summarises Hamel and Prahalad's view of the process in large world beating companies.

Three Phases of Strategic Competition		
Intellectual Leadership	Management of Migration Paths	Competition for Market share
Gaining business foresight by probing deeply into business drivers.	Pre-emptively building core competencies, exploring alternative product concept and reconfiguring the customer interface.	Building an effective supplier network. Crafting an appropriate market positioning strategy.
Developing a creative point of view about the potential evolution of: Functionality Core Competencies Customer interface	Assembling and managing the necessary coalition of business participants.	Pre-empting competitors in critical markets. Maximising efficiency and production.
Summarising this point of view in a 'strategic architecture'	Forcing competitors onto longer and more expensive migration paths.	Managing competitive interaction

There is a distinction to be made between the conventional approach to strategy and the 'Values-Based' approach that I believe adds value to the Hamel and Prahalad approach.

Conventional View of Strategy



This conventional approach puts too much emphasis on executives to come up with strategy and then to ensure that employees are delivering. Its very old style command and control thinking that really does not take advantage of the skills level that exist in a knowledge-based economy. It's going to fall short on imagination and lose out on employee loyalty. Why will highly skilled and knowledgeable employees stay with a company that fails to enable them to contribute?

A Values-Based View of Strategy

Fundamental Values or Beliefs



- What are our basic principles?
- What do we believe in?

**Design Management Practices
That Reflect and Embody
These Values**



- What policies and practices are consistent with these values.

Use These to Build Core Capabilities



- What can we do for the customer better than our competitors?

**Invent a Strategy That is Consistent
with the Values and Uses the
Capabilities to Compete in
New and Unusual Ways**



- Given our capabilities how can we deliver value to customers in a way our competitors cannot easily imitate?

Senior Management's Role

- Senior management "manages" the values and the culture of the firm

This Values-Based strategy will align employees with the values and objectives of the company and enable them to contribute to the full extent of their potential. Employees will want to stay with and contribute to this company because it is going to be exciting. And the role of the executives has been freed up to be more creative.

