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Managing strategy

In the fourth article in our strategy series, **Dr Tony Grundy** shows how strategy needs to be managed as a living process and how to deal with implementation

In this fourth article we look at how strategy is a living process and not just an organisational routine. But first to recap:

* In the first article, we looked at what strategy really is and how its processes and language need to be kept simple and clear. Some key terms were explained and differentiated, such as strategy, options, objectives, mission and vision, and in the second article we also defined competitive advantage too. We also explained that strategic thinking was a much more fluid and creative process than more operational thinking.
* We also defined strategy in three ways. First, analytical: moving from the current position to future goals; second, creative: the 'cunning plan'; and third, aspirational and visionary: 'what we really, really want'. All definitions add value.
* In the second article we explained how important the external environment was – particularly how important the competitive forces were for impacting on margins and returns. We also explained how competitive advantage had an equally important impact too. These competitive variables all change over time, resulting in a need to adapt the strategy, as we saw in the Bikram yoga case.
* In the third article we looked at how we could be more creative and indeed cunning in our generation and evaluation of options, with the Octopus and the Option Grid –techniques used to develop successful strategies at major corporations like Diageo and Tesco.

We now look at how this can be applied as a process and particularly how to deal with implementation.

Strategy needs to be managed as a staged process – see table, right. Here we see that the first stage is one of diagnosing the current position – quite separate from that of option generation. This separation is crucial, as otherwise managers will be trying to do too many disparate things – analytical and creative – all at the same time; the result being a mess.

We then select from those options a small number of options – maybe as little as three – that are true 'strategic breakthroughs' to implement in this period, or 'strategic decisions that will have a major impact on competitive position or capability or both, and on financial performance'.

If these breakthroughs are too numerous, then there will be a lack critical mass of resources, effort and attention. We might thus have to say 'no' to options even with good scores. Saying 'no' is good. Strategy is about concentration.

Implementation is a separate cycle of strategic thinking (stage four) where we are scoping strategic projects, doing detailed planning, business cases, the financials, planning change, gaining support and mobilising. This is still the land of strategic thinking.

The final stage, control and learning, is not just about monitoring the operational and financial metrics, but also progress against strategic milestones. The accountant should play a very big part in this to ensure that it doesn't get too tactical. This is also a learning process too, so we are reflecting on what is/isn't working in implementation and why, and adjusting it, and also continuing to learn about our changing environment. This is a very organic, living process and this may not work well if there is too much emphasis on metrics and control.

The first stage tools were addressed in the first and second articles. Turning to the third, implementation, be warned that this is often the graveyard of strategy. Here: performance = quality of strategy x quality of implementation x timing. This explains why if we mess up implementation, the result can be so poor.

Timing is also very important too, as the external and internal timings need to be right, so some strategies might get accelerated and some delayed.

To get implementation right requires the following:

* project managing of strategic breakthroughs
* robust business cases
* change management issues thought through and managed
* appropriate strategic milestones and metrics frameworks in place
* strategy implementation techniques used well.

Strategic breakthroughs, like entering a new market or a new distribution channel, are complex and may impact different parts of the organisation. They must, therefore, be project managed and this may mean that instead of relying on busy operational managers to do it, that some managers are full-time project managers instead. Project managing business projects, especially those involving a lot of change, is a different thing to managing technical projects, and demands a more fluid approach.

Strategic planning process

Current position → Future options → Strategic breakthroughs → Implementation → Control and learning

Current position ↑
* SWOT
* Pest
* Five forces
* Vision and objectives
* Competitive bench-marking

Future options ↑
* Cunning plan/ checklists
* GAP analysis
* Strategic option grid

Strategic breakthroughs ↑
* Value and cost drivers

Implementation ↑
* Difficulty over time

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There is a lot more work on business cases and on the broader long-term financial projections of revenues and costs. This involves looking at the value and cost drivers of each of these, the key assumptions, and evaluating these qualitatively and quantitatively, and producing influential and resilient business cases and incremental cash flows by strategic project. This is interesting work for the accountant.

Change management can be addressed by taking the key shifts between the present and the future and doing an extended 'gap analysis' of these, or 'from-to' analysis.

Here we split out the key shifts of 'from-to's' and score how far from the old to the new we are, perhaps on a 1-to-10 scale. We can use a cut-down 'seven S' model, or by analysing the key shifts as:

* strategy
* systems
* skills
* structure
* style.

All the usual softer issues also need to be thought through in terms of buy-in, culture change, structure change, team building/rebuilding, etc. It is well known that in a major change some individuals and teams will move through the transition phases of change at different speeds and, in the course of this, performance can dip (the 'transition curve'). This effect is magnified if done badly – for example if an acquisition is integrated badly.

Where the change is severe due to the difficulties of the business – a 'strategic turnaround' – then this puts more pressure on the strategy development and implementation process. Leadership needs then to be both commercially and strategically astute, and also charismatic. Where there is inappropriate leadership, strategy will get bogged down no matter how good the process is.

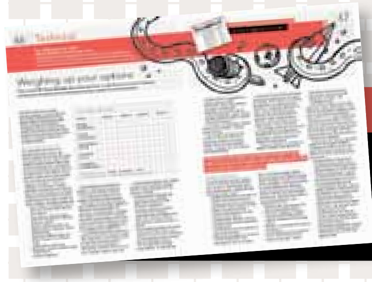
In terms of controls, it is important that besides the conventional financials and efficiency metrics (and customer satisfaction ones) that we find in a 'balanced score card', that we also include more outward-looking, dynamic and less tactical ones too, such as:

* relative market share
* customer ratings compared with those of key competitors
* strategic breakthrough milestones achieved
* long-term economic value actually generated ('economic value added' is the net present value of net cashflow in the business).

Finally a number of strategy implementation tools can be deployed, including:

* the option grid (see third article) to evaluate and prioritise different ways of implementing a strategy, and also individual strategic projects, both before and after
* the extended 'gap analysis' in the form of 'from-to' analysis, as we saw earlier, perhaps with the cut-down seven Ss
* value and cost driver analysis (Grundy 2002b), see last article
* the 'difficulty over time curve', see below.

When evaluating implementation difficulty – both to go behind the box in the strategic option grid and also within the detailed planning of the breakthroughs – there are a number of tools. One of these, 'force field'



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analysis, which splits out and evaluates the key enablers and constraints, is very good and is worth a look.

Here one does a vector picture to evaluate how impactful the positive and negative forces are likely to be – on the basis of your most cunning implementation plan. Then you look at the overall picture of vector arrows up and down: if they are mainly down it tells you that you will have a very rough ride.

A simpler and far more dynamic tool is just to attempt to picture how difficult you envisage the implementation to be over time, given your most cunning implementation plan. Ideally you would also do a force field to support that.

Moving on we now have some very useful tips to make the process living and easier.

We mentioned project management and this should kick in at the start. The first stage of the process should be to do a 'plan for the plan'. This is an area where you the accountant should be very much be involved. A 'plan for the plan' is defined as 'a detailed document of the optimal stage-by-stage process which deals specifically with the strategic issues faced in a creative, incisive and robust way, and that produces appropriate insights and outputs of maximum value'.

A plan for the plan typically contains:

* a list of the key strategic issues
* a very high-level view of the likely gap analysis to get an idea of the stretch
* some separate first-stage planning activities ('planning modules'), such as market analysis, customer value analysis, technology change, competitor analysis, process development, organisation development, cost management
* second-stage activities, such as strategic options workshop, board integration workshop, change management, communication, controls and metrics
* timings and time absorbed.

Each one of these might have as a one-pager:

* outputs
* process and tools
* inputs (data, etc)
* interdependencies with other modules
* people, timings and facilities.

The accountant can play a big role in planning this.

A second area of input for the accountant is in writing 'strategic position papers' or 'documents which diagnose the current position and explore options for a particular area or more generally without reaching definitive conclusions'.

The aims of these are to generate a rich debate of the issues before making resource and other decisions, to provide input to the final strategic plan, to build commitment and to influence key stakeholders. A spin-off is that the eventual plan is often very much like the position paper material – the latter is certainly much quicker to write.

In conclusion, we are now in good shape for the final article on 'strategy and the finance function'.

Dr Tony Grundy is an independent consultant and trainer and lectures at Henley Business School in the UK, www.tonygrundy.com