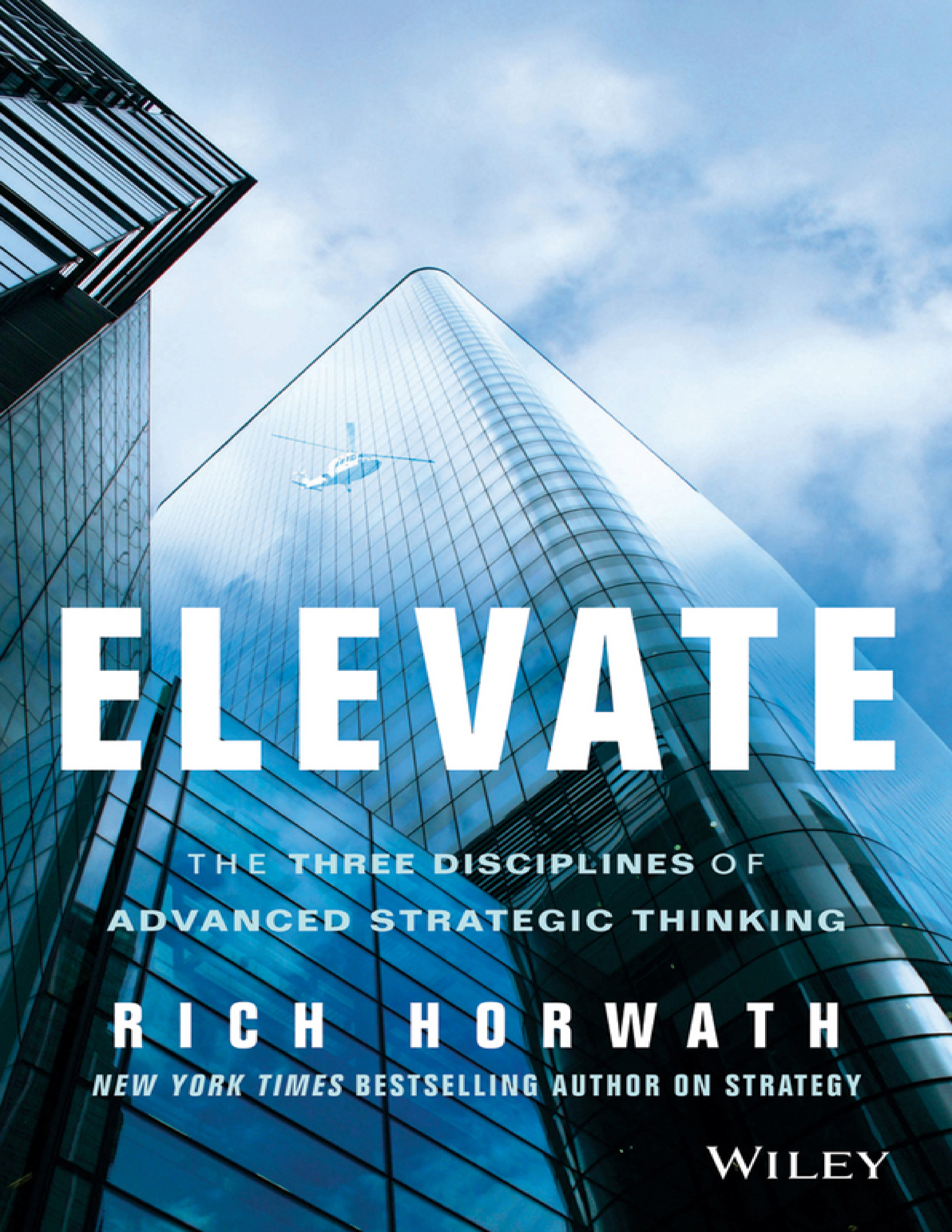

ELEVATE

THE THREE DISCIPLINES OF ADVANCED STRATEGIC THINKING

RICH HORWATH

NEW YORK TIMES BESTSELLING AUTHOR ON STRATEGY

WILEY

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For my wife Anne, daughter Jessica, and son Luke, who, at five years old, compared my CD on strategy to a sermon at church:

“There’s a lot of talking, I don’t understand most of it, and I think I’m getting sleepy.”

Introduction

Elevate

To see things in a new way,

we must rise above the fray.

Approaching the Hughes 269C helicopter, the first thing I notice are the doors—there aren't any. "Nope, no doors," explains Chris, my helicopter flight instructor. "Gets too hot in there." It's amazing how much more closely you pay attention to the seat belt instructions when the aircraft you're about to go up in has no doors. After completing a thorough pre-flight checklist of some 60 items, including a review of the helicopter's nose area, cabin, engine, main rotor system, tail boom, and tail rotor, we slip into the only two seats in the helicopter. Chris walks us through another review, this one being the 64 items on the pre-takeoff checklist and we're ready to go.

As we elevate into the clear blue sky, I'm immediately struck by how different things look from this vantage point, even though we're only about 500 feet up. I see patterns of traffic on the roads and the outlines of towns bumping up against one another. I see features of buildings I've not seen from this perspective. I see homes on 10- and 20-acre parcels of land, too secluded to see from the ground. Now, I see it all.

Then Chris says, "Ok, your turn to fly this thing." He reminds me how the cyclic stick—used to tilt the main rotor disc by changing the pitch angle of the rotor blades on top of the chopper—should be treated like a martini. Any big, jerky moves of the martini glass and your drink will spill. It's the same concept with the cyclic. It should be moved slightly and smoothly, as the tilting of the rotor disc in a particular direction results in the helicopter moving in that direction. At the same time, my feet are on the tail rotor pedals, which control the smaller blades at the back of the helicopter. Since we're in a hovering position, the tail rotor pedals are controlling the direction of the nose of the helicopter. I'm checking the flight instruments inside the helicopter and scanning the air space around us for other aircraft, buildings, and electrical lines.

"You know you just took us up 100 feet?" Chris asks.

"Uh, no," I answer, as a 20-knot wind blows through the open cabin. I feel the helicopter swaying and realize I just took us up another 100 feet. Anxiety growing and confidence shrinking, I say, "Maybe you should take the controls back."

"Sure," says Chris, smiling as he notices my left hand clinging to the underside of the seat as we bank right, my body tilting towards the opening where the door should be. I'm staring at the countryside below, and thinking, "Thank God I got the seatbelt part right." My helicopter piloting lesson had come to an end.

What I took away from the lesson is that it requires great knowledge, preparation, and skill to capably fly a helicopter. I obviously didn't have these things, but my instructor did. The mastery to operate multiple controls simultaneously, monitor the flight instruments (internal conditions), assess the air space (external conditions), and devise an intelligent flight plan all contribute to a successful journey. And so it is with leading a business. A truly strategic leader possesses the mastery to manage multiple initiatives simultaneously, monitor the internal conditions of the business (e.g., people, processes, culture, etc.), assess the external conditions (e.g., market trends, customer needs, competitive landscape, etc.), and design a strategic action plan to achieve the goals and objectives. In both cases, elevation is required.

To elevate means to lift up, or to raise to a higher rank or intellectual level.[1] A helicopter is arguably the most precise, agile vehicle for physically raising a person up to considerable heights. Unlike fixed-wing aircraft (planes), helicopters are able to hover in one position for extended periods of time, ranging from a few feet above the ground to more than 36,000 feet high. One of the biggest challenges I continually hear from CEOs and talent management leaders is, “We need to elevate our manager’s thinking.” In essence, they’re saying that managers need to be able to quickly elevate their thinking from down in the tactical weeds of day-to-day operations to a higher level. At this higher level, they can expand their perspective to understand how the core foundational elements of their business fit together and provide superior value to customers. The challenge of taking time to elevate one’s thinking is supported by an Economist Intelligence Unit survey in which 64 percent of managers in bottom-performing companies cited the challenge: “We are too busy fighting the daily battles to step back.”[2]

A helicopter has the agility to navigate within congested areas, such as skyscraper-filled cities, and also get to remote areas not accessible by any other means, such as mountaintops, giving them unmatched versatility. This versatility translates into a variety of functions ranging from emergency medical transport to aerial attacks by military forces. As author James Chiles wrote, “Of all birds, winged mammals and insects, very few have mastered the skill of pausing in midair and going backward as well as forward, so anything capable of such flight is a rare beast.”[3] Business leaders also require agility—mental agility. Mental agility enables leaders to think clearly through the congestion of information—which comes in the form of e-mails, reports, and meetings—to isolate the trade-offs and decisions that will make or break their success. In both cases, a fair amount of risk is assumed.

Importance of Strategy

The inability to elevate thinking in order to set strategic direction can have devastating long-term effects on an organization. Research by The Conference Board has shown that 70 percent of public companies experiencing a revenue stall lose more than half of their market capitalization.[4] Additional research attributes the primary cause of these revenue stalls to poor decisions about strategy.[5] While it's convenient to blame an organization's failings on external factors such as the economy, decisions about strategy account for failure a whopping 70 percent of the time.[6] Following are two examples of executives citing external factors, in these cases "headwinds," for their organizations' failings:

> *We faced a number of competitive headwinds that became more pronounced in the second quarter.*[7]
>
> —**Telecom CFO**

> *We are saddened by this development. We were all working hard towards a different outcome, but the headwinds we have been facing for quite some time . . . have brought us to where we are now* [*bankruptcy*].[8]
>
> —**Retail store president**

So, the next time you hear someone blaming the economy or headwinds for their poor performance, smile and hand them a mirror. If you're going to take credit when things go well, then you'll need to take accountability when things don't go well. And that accountability begins with your strategy. As former United States Treasury Secretary Paul O'Neill said, "The great companies don't make excuses, including excuses about how they didn't do well because the economy was against them or prices were not good. They do well anyway."[9]

When poor decisions about strategy are made and an organization goes through a revenue stall, it's been shown that, on average, low performance continues for more than 10 years.[10] Unfortunately, this prolonged period of poor performance can lead to bankruptcy. Research on 750 bankruptcies during a 25-year period showed that the number-one factor behind these bankruptcies was bad strategy.[11] Contrary to popular opinion, the researchers attributed the failures to *flaws in the strategies themselves*, not to *poor execution* of the strategies. Therefore, it's important to be skilled at crafting strategy.

Great strategy is created by great strategists. Great strategy doesn't magically emerge from Excel spreadsheets, or elaborate PowerPoint decks. It comes from managers who can think strategically. In the *Wall Street Journal*, Filippo Passerini, president of global business services and CIO at Procter & Gamble asserts:

> *It is becoming even more important to have the right strategies in place at the right point in time. Having the right strategies now is so important because if you happen to be wrong, you will derail within months. In the past, to figure out you were wrong, would take a few years. Now in three to six months, you may be in grave difficulty if you don't have the right strategies.*[12]

While most managers believe strategy is an inherent factor in their organization's success, several studies also document the support for this claim. One study concludes that, "strategy has a positive and significant effect on a firm's performance. Specifically, it is found to influence both the growth and profitability of a firm."[13] Another study summarized its findings as, "strategy contributes to profitability differences between successful and unsuccessful companies."[14] While both anecdotal and empirical evidence demonstrate the importance of strategy to an organization's success and the lack of strategy to an organization's failure, a thoughtful, methodical, and practical approach to strategy development is not common. A survey of more than 2,000 global executives found that only 19 percent of managers said that their companies have a distinct process for developing strategy.[15] For those firms that do have a process for strategy development, an alarming 67 percent of managers said that their organization is bad at developing strategy.[16] Clearly, there are some real-world challenges managers face in bridging the "knowing-doing gap" when it comes to strategy. Most managers know it's important, but few do it effectively.

Top 10 Strategy Challenges

During the past decade, while leading strategic thinking workshops around the world, I've recorded a list of nearly 40 challenges that managers have said prevent them from effectively developing, communicating, and executing strategy. Honing my study down to 25 companies and the responses of more than 500 managers, the top 10 strategy challenges and the frequency of each challenge by company are listed in Table I.1.

Table I.1 Strategy Challenges

Challenge	Percentage of Organizations
1. Time	96
2. Commitment (buy-in)	72
3. Lack of priorities	60
4. Status quo	56
5. Not understanding what strategy is	48
6. Lack of training/tools for thinking strategically	48
7. Lack of alignment	48
8. Firefighting (being reactive)	44
9. Lack of quality/timely data and information	36
10. Unclear company direction	32

1. **Time (96 percent).** The most commonly cited strategy challenge is time. With more responsibilities and fewer people to handle them, many managers are overwhelmed with activities. While checking lots of tasks off a to-do list each week may foster a sense of accomplishment, activity doesn’t always equal achievement. If the individual tasks aren’t strongly supporting the strategy, then we may fall into the trap of activity for activity’s sake. When there are lots of things to do, managers feel guilty stopping to take time to think strategically about the business. After all, most performance reviews don’t include a big box for “Thinks strategically for six hours a week,” with the rating of “Exceeds Expectations,” marked in it. When there is a

lot to get done, time to think is often the first thing to go.

2. **Commitment (72 percent).** Gaining commitment from others to support and execute the strategy vexes many managers. Often referred to as *buy-in*, commitment can be challenging for several reasons. If the people expected to execute the strategy aren't aware of it, or don't understand it, then commitment will be non-existent. According to a study out of Harvard Business School, a shocking 95 percent of employees in large organizations are either unaware of or don't understand their company strategies.[17] This finding may be rejected out of hand by some senior leaders, but it's crucial to find out just how high that percentage is for your group. Another reason buy-in is lacking is because many people don't understand the reasons behind the strategy and how it will help them achieve their goals. A study of 23,000 workers found that only 20 percent said they understood how their tasks relate to the organization's goals and strategies.[18] If leaders fail to share why the strategies are in place, and don't translate them to people's respective work, the level of commitment will be minimal.

3. **Lack of priorities (60 percent).** A great cause of frustration among managers is the overall lack of priorities at the leadership level. When everything is deemed important, it creates an overflowing-plate syndrome. If clear priorities are not established up front, then it becomes difficult for people to determine what they should be working on and why. This lack of priorities prevents people from taking things off of their plate, resulting in the frustration of feeling spread too thin by too many initiatives. A lack of priorities is a red flag that the difficult work of making trade-offs—choosing some things and not others—was not

accomplished in setting the strategy. Good strategy requires trade-offs, which in turn help establish priorities by filtering out activities that don't contribute to the achievement of goals.

4. **Status quo (56 percent).** Numerous studies in the social sciences have shown that people prefer the status quo to change.[19] When people change strategy, inevitably they are changing the allocation of resources, including how people invest their time, talent, and budgets. Since strategy involves trade-offs, certain people will be gaining resources and others losing resources. Obviously, those slated to lose resources are going to prefer to keep things they way they are. Another factor in the preference of the status quo is the "if it ain't broke, don't fix it," mentality. For groups that have experienced success in the past, the idea of making changes to the strategy flies in the face of common sense, so their question is, "Why change what made us successful?" What they may not realize is that changes in market trends, customer value drivers, and the competitive landscape may be making the current strategy obsolete. In leading a revival at Starbucks during his second stint as CEO, Howard Schultz said, "We cannot be content with the status quo. Any business today that embraces the status quo as an operating principle is going to be on a death march."[20]

5. **Not understanding what strategy is (48 percent).** Even at the highest levels of organizations, confusion abounds as to what exactly is a strategy. Perhaps due to its abstract nature, strategy tends to mean different things to different people. It's often confused with mission, vision, goals, objectives, and even tactics. Failure to provide managers with a universal definition of strategy, and clear examples to refer to, leaves the term open to interpretation, creating ineffective plans

and inefficient communication. To determine the level of understanding in your group, provide each manager with a 3″ × 5″ notecard at your next meeting and ask each person to record their definition of strategy along with an example. Collect the cards, read them aloud to the group, and tally the number that defined strategy in the same way. Professor Richard Rumelt describes the problem this way: “Too many organizational leaders say they have a strategy when they do not. . . . A long list of things to do, often mislabeled as strategies or objectives, is not a strategy. It is just a list of things to do.”[21]

6. **Lack of training/tools for thinking strategically (48 percent).** Many managers aren’t considered strategic simply because they’ve never been educated on what it means to think and act strategically. For many years in the pharmaceutical industry, district sales managers were not asked to be strategic, because the blockbuster business model combined with the reach and frequency sales approach proved to be a winning formula. However, changes in the industry—including healthcare reform, geographic differences in managed care, reimbursement policies, and the emergence of Accountable Care Organizations (ACOs)—now require district sales managers to strategically allocate their resources and make trade-offs between different opportunities to grow their business. Research has found that 90 percent of directors and vice presidents have received no training to become competent business strategists.[22] It shouldn’t be a shock then that a Harris Interactive study with 154 companies found only 30 percent of managers to be strategic thinkers.[23] The disconnect on proficiency in strategic thinking can sometimes occur between a CEO’s perspective and the perspective of senior executives. A global survey showed that while only 28 percent of CEOs felt their teams

needed improvement in strategic thinking, more than half of the non-CEO executives indicated that strategic thinking skills were in need of improvement.[24] Procter & Gamble CEO A. G. Lafley writes, “There simply is no one perfect strategy that will last for all time. There are multiple ways to win in almost any industry. That’s why building up strategic thinking capability within your organization is so vital.”[25]

7. **Lack of alignment (48 percent).** Getting people on the proverbial same page is difficult when it comes to strategy. The challenge lies in the fact that different groups within the organization have their own goals and strategies. Sometimes they align with others, but often times they don’t. When there is misalignment, power struggles erupt and instead of working with one another, managers from different areas work against each other to ensure their priorities take precedence. Lack of alignment can also occur between executive teams and the organization’s board of directors. Some organizations use their board to provide input into the development of strategy and some use the board to review the already completed strategy in a Q&A-format presentation. Selecting the optimal intellectual exchange and setting appropriate expectations for contribution can be critical to a CEO’s success. A survey of 1,000 corporate directors found the number-one reason for success and the number-one reason for failure in CEO appointments dealt with strategic alignment between the CEO and the board.[26]

8. **Firefighting (44 percent).** Make no mistake, a firefighting mentality starts at the top of the organization. If managers see their senior leaders constantly reacting to every issue that comes across their desk, they too will adopt this behavior. Firefighting

then becomes embedded in the culture and those that are seen as the most reactive, oddly enough, garner the greatest recognition. Managers who thoughtfully consider each issue before responding don't seem to be doing as much as the firefighters, when in reality, they're exponentially more productive.

> "Let's think about that," is a simple but powerful phrase that can eliminate reactivity within your business and culture. The next time you receive an e-mail marked urgent or someone comes charging into your office with how to react to a competitor's activity or a new flavor-of-the-month project, reply with "Let's think about that." Then stop and consider how this helps you achieve your goals and supports your strategic focus. To do so, determine the probability of success, impact on the business, and resources required. If after this analysis, the new task doesn't appear to support your goals and strategies, kindly inform the relevant parties that, relative to the other initiatives you're working on, this doesn't warrant resource allocation.

9. **Lack of quality/timely data and information (36 percent).** Strategic thinking is defined as the ability to generate new insights on a continual basis to achieve competitive advantage. An insight is the combination of two or more pieces of information or data in a unique way that leads to the creation of new value. So, at the core of strategic thinking is the information or data, which we piece together in unique ways to come up with new approaches, new methods, or new solutions for providing superior value to customers. Managers who aren't receiving timely, high-quality information and data regarding the key aspects of their business are going to be hindered in their ability to think strategically—and the ability to understand this information is

critical. A study showed that 62 percent of workers cannot make sense of the data that they receive.[27] Without clear priorities and methods for understanding, categorizing, and sharing insights, managers at all levels will continue to struggle with generating new ways to achieve their goals and objectives. Research by the consultancy McKinsey & Company verified the challenge managers face when it comes to profitably growing their business on strategic insights:

> *A fresh strategic insight—something your company sees that no one else does—is one of the foundations of competitive advantage. It helps companies focus their resources on moves that separate them from the pack. Only 35 percent of 2,135 global executives believed their strategies rested on unique and powerful insights.*[28]

10. **Unclear company direction (32 percent).** It's difficult for managers to set strategy if there isn't clear strategic direction at the business unit and corporate levels. In some organizations, there are strategies at the business unit and corporate levels, but they're kept secret. Evidently, this secrecy is to prevent competitors from finding out their strategy. While it's understandable to keep proprietary processes and future intellectual properties secret, it makes little sense to keep strategy hidden away. If strategy is how to achieve the goals and objectives, it's impossible to gain full engagement and proper commitment from employees in rolling out the strategy if they don't know what it is. The other main reasons for unclear company direction are lack of process to develop strategy, a "we're too busy to plan" approach, and ignorance as to what comprises sound strategy. Managers from more than 500 companies have taken an assessment I developed called, "Is Your

Organization Strategic?" and the average score is 45 percent, a failing grade, indicating there are many rudderless companies out there that are strategically adrift.

GOST Framework

At the heart of most strategy challenges is a lack of clarity as to what strategy is and how it differs from some of the other key business-planning terms. If you think that this lack of strategy knowledge only plagues new managers at the lower levels of the organization, take a look at the following quotations I've collected during my work from CEOs describing so-called strategies that aren't strategies at all:

- Become the global leader in our industry.
- Use innovation to build customer-centric solutions.
- Grow our audience.
- Strengthen core business, execute new initiatives, and reduce costs.
- Increase sales 25 percent in emerging markets by pursuing new growth opportunities.

The examples demonstrate how frequently the terms *goals, objectives, strategies*, and *tactics* are used interchangeably. I developed a simple framework called GOST (Figure I.1) to help managers at all levels use and teach others to use these business-planning terms appropriately.

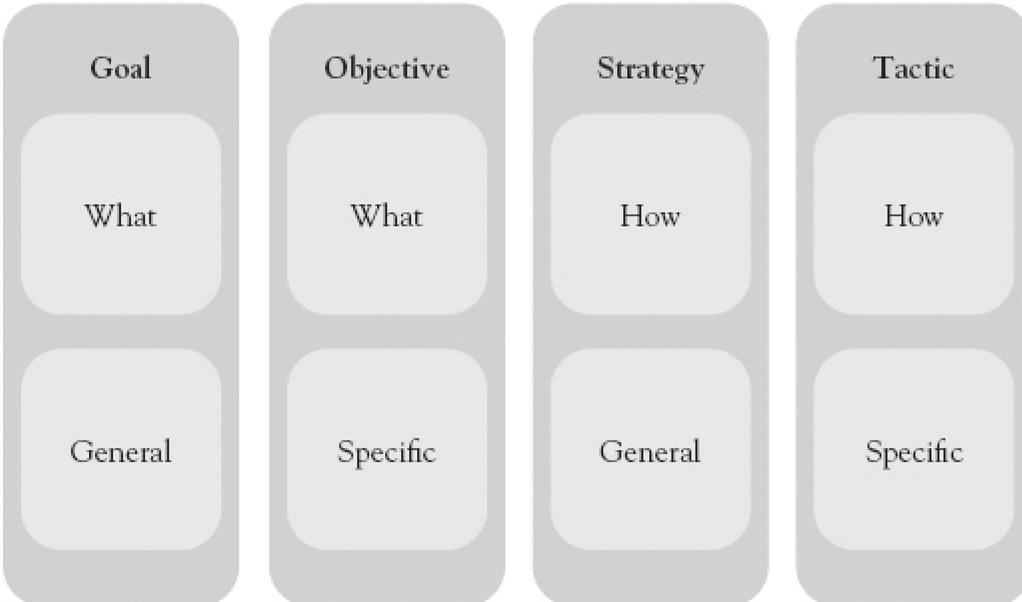

Figure I.1 GOST Framework

A goal is a target. It describes what you are trying to achieve in *general* terms. The following is an example of a goal for a regional sales director:

> **Goal:** Win the national sales contest for our region.

An objective also describes what you are trying to achieve. The difference is, an objective is what you are trying to achieve in *specific* terms. The common acronym used to help flesh out an objective is SMART: specific, measurable, achievable, relevant, and time-bound. Objectives should meet these criteria, and they should flow directly from the goals you've already set. As evidenced in the following example, the objective matches up with the corresponding goal established earlier:

> **Goal:** Win the national sales contest for our region.
>
> **Objective:** Achieve $25 million in sales by the end of the third quarter of this year.