# Strategic Thinking and Planning

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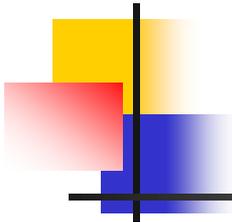
Tenets of Strategy

A. **Purpose** of Strategy: Prepare for the future

B. **Approach** to Strategy-Making: Stimulate innovative thinking

C. **Substance** of Strategy: Decide on direction and investments

D. **Outcome** of Strategy: Take action for results
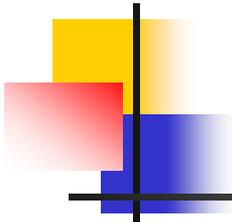
A. Purpose of Strategy: Prepare for the Future

- Assumptions
  - Predict and/or forecast environment trends/events
  - Develop plan to take advantage of opportunities and deal with threats
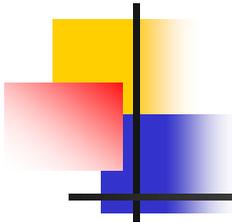
Purpose of Strategy: Prepare for the Future

- Actual Practice in Organizations
  - Extrapolate from past and recent developments
  - Act mostly out of fear rather than leadership ambition
  - Follow the latest management fad or industry bandwagon
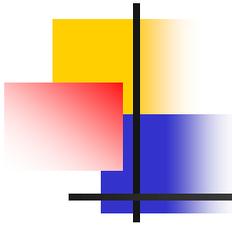
Purpose of Strategy: Prepare for the Future

- Approach for Leadership
  - Understand fundamentals of structural change in economy and society
  - Build new organizational assets and capabilities

Changing Events vs Structural Change

*Unpredictable, unexpected events*

Visible effects

Attention grabbing headlines

Shifting attention

Emerging concerns

Fast changing

High uncertainty

Structural Patterns

Fundamental

Long-term

Cumulative

Stable

Traditional Investments for Value Delivery

Tangible Assets

Accounting Control

Monopoly Provider
Standard Operating Procedures/Rules
Error Reduction

Mandated Services
Compliance mindset

**Physical Facilities
Budget
Equipment
Legislation**

Organization Competencies

Resource Allocation

Value Delivery

Intangible Assets

**Human Capital
Information/Knowledge
Relationships/Networks
Culture/Reputation**

Strategic Assets and Capabilities for the Future

Tangible Assets

Physical Facilities
Budget
Equipment
Legislation

Intangible Assets

Human Capital
Information/Knowledge
Relationships/Networks
Culture/Brands

Synergized

Capabilities Commitment Capacity

Leadership
Processes
Systems
Change
Teamwork

Business Model

Execution

Value Creation

Innovative
Impact
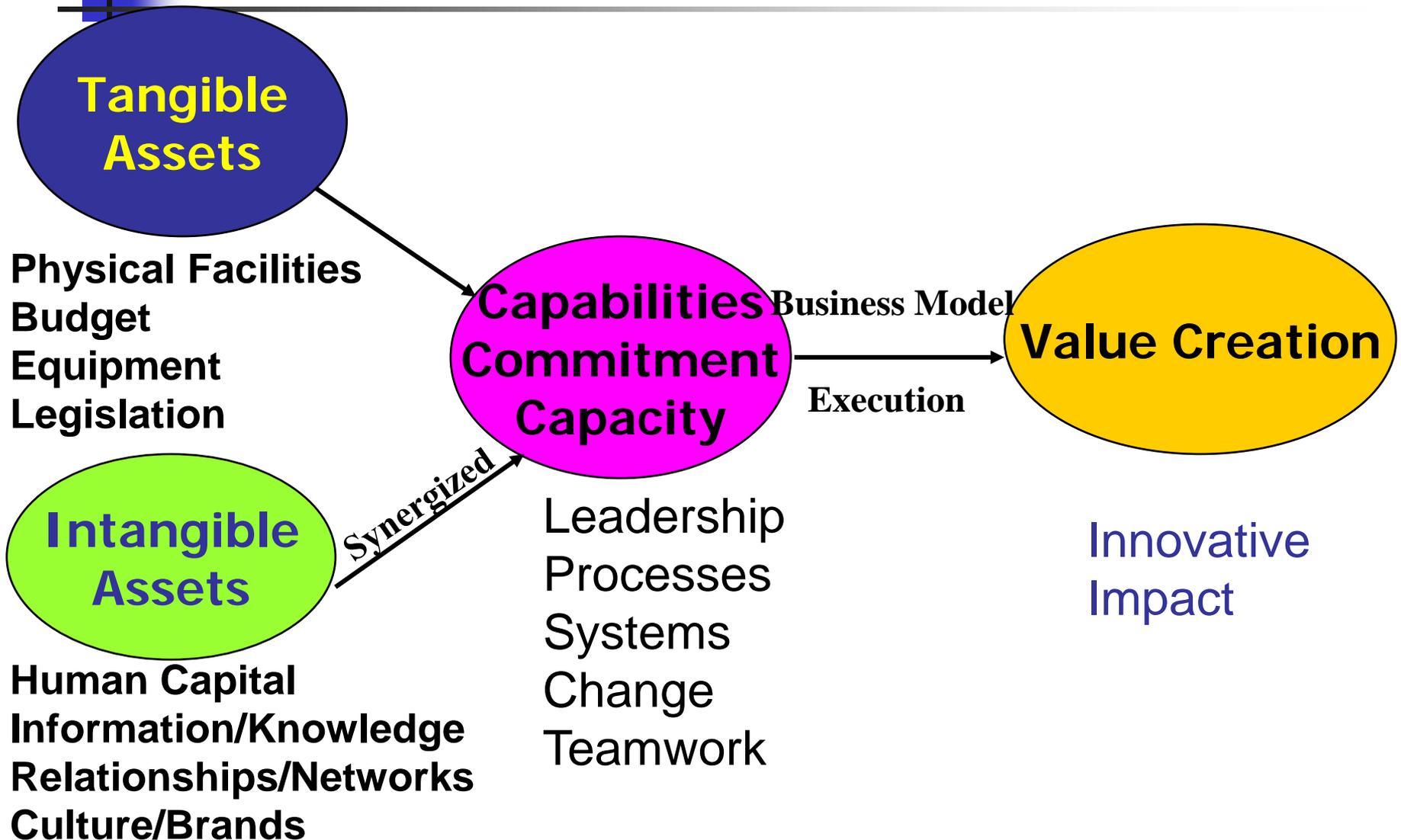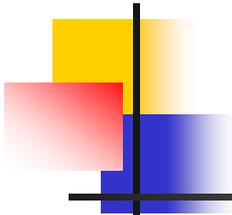
How Leaders Create Strategic Value

- **Think Differently**: Create New Concepts/Mental Models
  - Creativity and Imagination
  - Learn from Other Contexts
  - Listen to Stakeholders
- **Communicate Passionately**: Articulate Concept to Organization
  - Share ideas/concepts with organization
  - Invite feedback and Refine model
  - Gather support and Get approval to Experiment/Implement
- **Execute Systematically**: Build the Capacity and Capabilities
  - Pay attention to People, Processes, Structures and Systems
  - Realize value progressively and cumulatively
- **Adapt and Innovate Continuously**
  - Observe, Perceive, Reflect, Learn, Act
  - Lead Organization Change
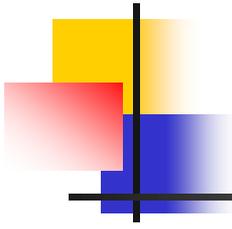
B. Approach to Strategy-Making: Stimulate Innovative Thinking

- Assumptions
  - Exploration → Exploitation
  - Divergence (creative, external)
    → Convergence (structured, internal)
    → Long-term Plans

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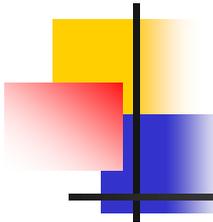
Approach to Strategy-Making: Stimulate Innovative Thinking

- Actual Practice in Organizations
    - Uncomfortable with divergent, creative thinking as being chaotic and too time-consuming
    - Strategy sessions are packed with presentations with little dialogue
    - Review of past performance sets tone for future plans
    - Financial goals & budgets (operating/capital) drive strategy
    - Required forms/procedures substitute for creative thinking
    - Strategies emerge and evolve throughout the year, not during planned strategy sessions/periods
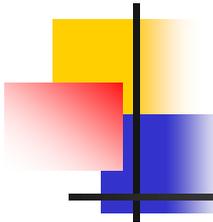
Approach to Strategy-Making: Stimulate Innovative Thinking

- Approach for Leadership
  - Create mental maps and guiding frameworks, not formal procedures nor forms
  - Focus on internalizing key issues, not producing pet answers
  - Integrate short-term goals with long-term capacity building
  - Synergize goals with the environment and core competencies
  - Be alert and recognize strategic issues and choices that emerge from problem-solving by middle managers
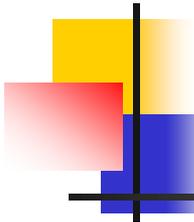
C. Substance of Strategy: Decide on Direction & Investments

- Assumptions
    - Industry analysis to determine strategic position
    - Rational analysis and methods can generate different strategic options
    - Strategic options are considered carefully and weighed
    - Decisions are made based on the maximizing returns from investments made
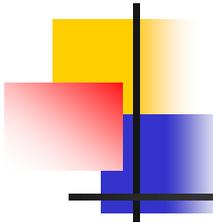
Substance of Strategy: Decide on Business Direction & Investments

- Actual Practice in Organizations
  - Analysis is ad hoc – little coherence, difficult to evaluate
    - Organization structure (units) is the default frame of analysis
    - Strategy comes from consolidation of divisional plans (similar to financial reporting)
    - No synthesis, little synergy across units
    - No value added/created by senior managers
    - Single set of proposals – take it or leave it with time pressure
  - Analysis is used to confirm strategy, not develop options
  - Leaders don't change their minds, they change their advisers
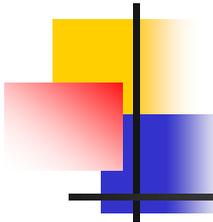
Substance of Strategy: Decide on Business Direction & Investments

- Approach for Leadership
  - Develop strategic thinking
  - Use business model to develop options, synthesize choices and give coherence
  - Challenge assumptions (rather than challenge proposals themselves) to facilitate rethink of strategy

Developing Strategic Thinking

Strategic Vision & Issues

Sustainable

Strategic Fit

Strategic Thinking

Core Competencies

Trade-offs

Business Model

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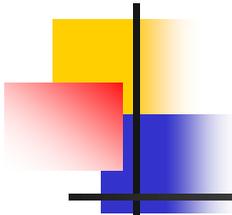
Developing Organizational Strategies

- Strategies typically are developed
    - To deal with strategic issues – they outline an organization's response to the fundamental challenges it faces
    - To achieve a strategic mandate or vision - a clear and succinct description of what the organization or community would look like if it successfully implements its strategies and creates significant public value
- Strategies can be sustained only if the organizational have the core competencies to execute them over the long-term
- Strategies are based on unique activities that must fit the core competencies of the organization and reflect the trade-offs that may be required in the strategic vision or issues
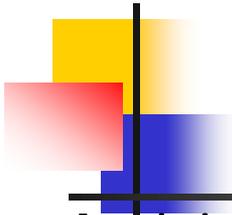
Developing Strategic Vision

- A vision provides an overall strategic logic and concept of the organization
    - What it should do
    - How it should do it, and
    - How the intermediate results and desired outcomes would be achieved
    - Useful tool for both for strategic formulation and implementation
- An articulated vision enables the organization to conceive the future in the present and internalize what success and desirable behavior looks like
    - Generates creative tension that prompt positive change
    - Inspires people to participate and contribute to the achievement of the desired outcomes
    - Enables individual initiative by providing important permission, justification and legitimization to the actions and decisions that accord with the vision
- Share the vision personally, passionately and repeatedly

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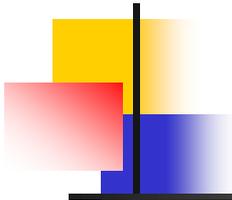
Strategy rests on Unique Activities

- Activities are the basic units of strategic advantage
    - Ultimately, all differences in cost or price derive from the hundreds of activities required to create, produce, sell, and deliver products or services
    - Overall advantage or disadvantage results from all of an organization's activities, not only a few
- Operational effectiveness means performing similar activities *better* than others
- Strategy is about being different; it means deliberately choosing a *different* set of activities to deliver a unique mix of value
- Strategic positioning means performing *different* activities or performing similar activities in *different ways*

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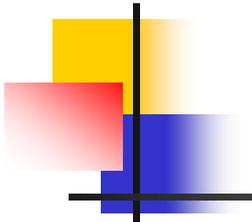
Trade-offs

- Strategy is making trade-offs – choosing what *not* to do, as well as what to do
- Strategic position is not sustainable unless there are trade-offs with other positions
  - Trade-offs occur when activities are incompatible
  - Trade-offs create the need for choice
- Trade-offs arise for three reasons
  - Inconsistencies in image or reputation
  - Different positions, with their tailored activities, require different product configurations, different equipment, different employee behavior, different skills, and different management systems
  - Limits to internal coordination and control

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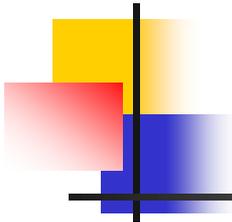
Strategic Fit

- Strategic advantage comes from the way activities fit and reinforce one another
  - Involves a whole system of activities, not a collection of parts
  - How activities relate to one another
  - How activities are combined or integrated to achieve strategic outcomes
- Fit creates a chain that is as strong as its strongest link
  - Fit is important because discrete activities often affect one another
  - Fit is strategy-specific because it enhances a position's uniqueness and amplifies trade-offs
  - One activity's cost is lowered because of the way other activities are performed
  - One activity's value to customers can be enhanced by other activities

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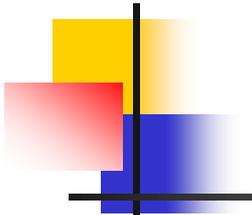
Types of Strategic Fit

- First-order fit: simple consistency between each activity and the overall strategy
  - Consistency ensures that the strategic advantage of activities cumulate and do not erode or cancel themselves out

- Second-order fit: when activities are reinforcing

- Third-order fit: optimization of effort
  - Coordination and information exchange across activities to eliminate redundancy and minimize wasted effort
  - Coordination with suppliers and distributors
  - Product design choices to enable unique capabilities
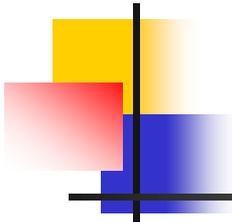
Four Strategic Actions

- ## Eliminate
  - Which of the value factors that others take for granted should be eliminated?
- ## Reduce
 - Which value actors should be reduced well below the normal standard?
- ## Raise
  - Which value factors should be raised well above the normal standard?
- ## Create
  - Which value factors should be created that others have never offered?

Capturing Value with Business Models

Priority Groups

Value Proposition

Value Network

Strategic Concept
Distinctive Capabilities

Unique Activities

Value Capture

Stakeholder Support

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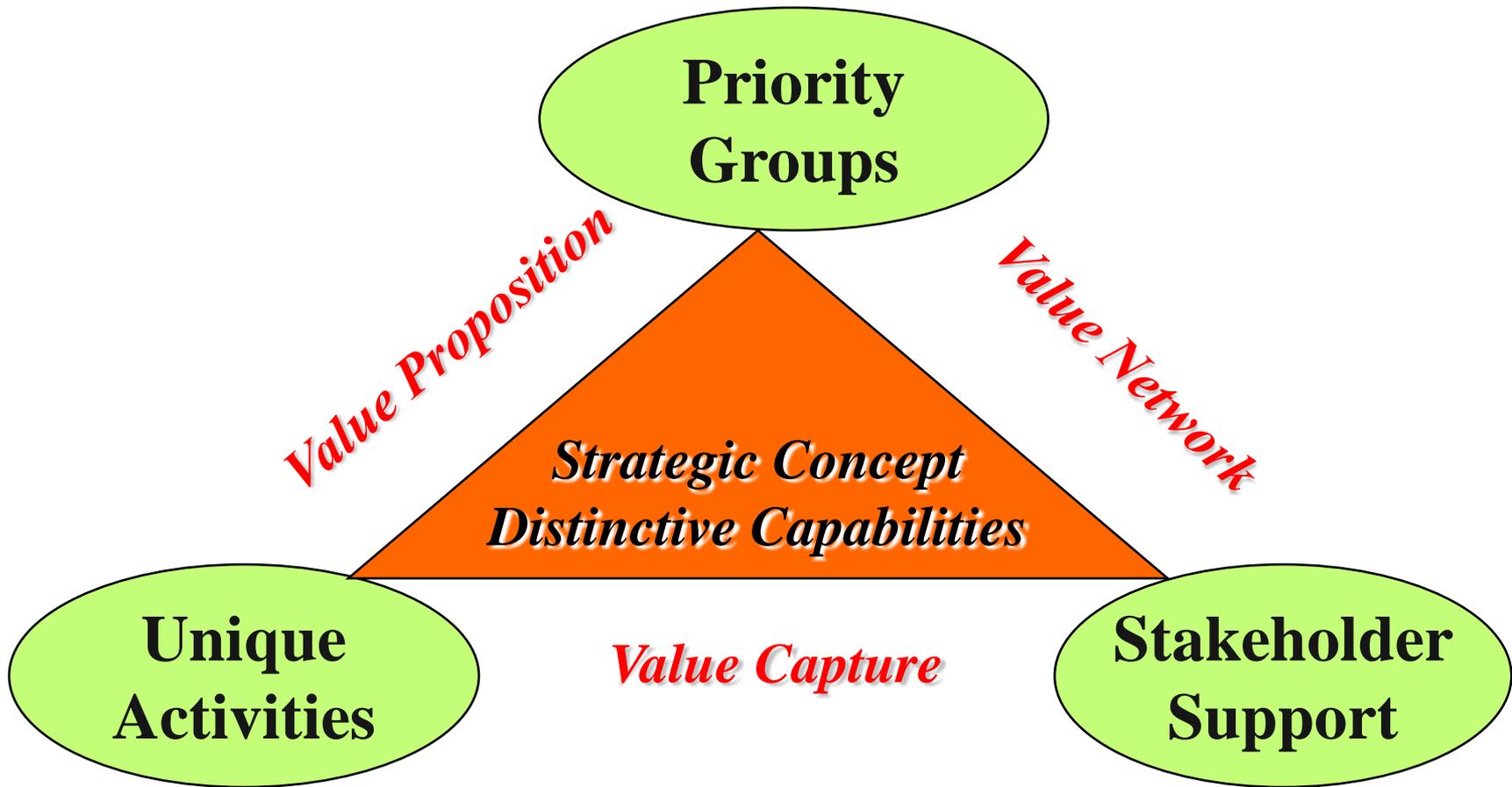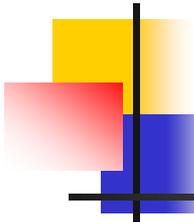
Developing A Business Model I

1. **Priority Groups**
   - What priority groups or key stakeholders do we choose to serve? Why?
   - What non-members should we target? Why are they not buying now?

2. **Value Proposition**
   - Why should people come to us?
   - How do people benefit from using our services?
   - How do we serve and create value in the people's lifecycle experience?

3. **Unique Activities**
   - What activities do we perform to add or create new value?
   - Are they different activities or are the activities performed differently?
   - Do these differences distinguish us from the current players?
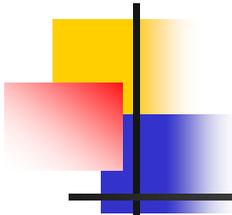
Developing A Business Model II

4. **Spiritual Value**
   - How do we achieve spiritual goals and values?
   - How do we make the services accessible to the priority groups?
   - How do we achieve a reasonable cost structure in producing the required services?

5. **Stakeholder Support**
   - How do we ensure continuing political and stakeholder support?
   - How do we ensure proper accountability for the resources given to us?

6. **Value Network**
   - How do we design and integrate the activities into a coherent value chain or value network to deliver the desired value?
   - How do we align the interests of internal units and external partners to ensure the needed collaboration in delivering the desired value?

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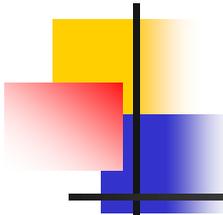
Practical Approach to Strategic Development

- What are the practical options we might pursue to address this strategic issue, achieve this goal, or realize this idealized scenario?

- What are the barriers to the realization of these options or scenarios?

- What major proposals might we pursue to achieve these options or scenarios or to overcome the barriers to their realization?

- What major actions could we take, with the existing resources, in the next year to implement the major proposals?

- What specific steps must we take in the next few months to start the journey and who is responsible for each step?
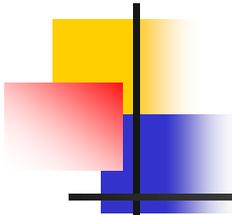
Evaluating Strategic Options

- What is really reasonable?

- Where can we combine proposals, actions, and specific steps?

- Do any proposals, actions or specific steps contradict each other? If so, what can we do about them?

- Will the options enable us to achieve our strategic goals or resolve our strategic issues?

- How have others pursued these options and what can we learn from them?

- Do we have the organizational capabilities to implement the proposals?

- What resources are we willing to commit to implement the proposals?

- How much political and resource support are we likely to get from key stakeholders?
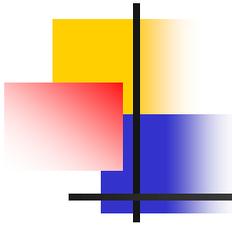
D. Outcome of Strategy: Take Action for Results

- Assumptions
  - Plans → Approval → Actions → Results
- Actual Practice in Organizations
  - Main outputs of strategy are powerpoints, papers and projections (financial)
  - Acknowledging current reality is even more difficult than developing new strategy
  - Little consideration of change in performance measures
  - Little learning during reviews, with tendency to claim credit and/or blame others depending on actual results
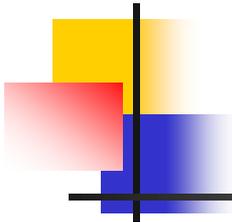
Outcome of Strategy: Take Action for Results

- Approach for Leadership
  - Build execution culture to ensure appropriate actions
  - Realign performance measures to get results
- Role of Staff/Support functions
  - Controller vs Enabler
  - Checker vs Equipper
  - Coordinator vs Synergizer
  - Limiting Deviance vs Leveraging Ideas and Best Practices
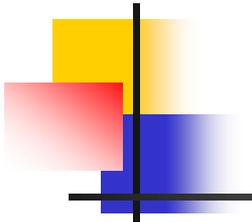
Strategy Execution: Key Issues

How do you ensure

- That organizational members take actions and initiatives,

- That will enable the organization to achieve its desired goals, or

- That are aligned to the organization's strategy and values

Especially when you are not there to directly supervise the actions and initiatives

Effective Strategy Execution

Execution requires

- **Clarity of Future**
- **Honesty of Present**
- **Dialogue of Possible Paths**
- **Effective Organization**

Results in Self-Disciplined Actions

Desired Future

Possible migration paths

Flawed migration paths

Current Reality Position

Assumed Position

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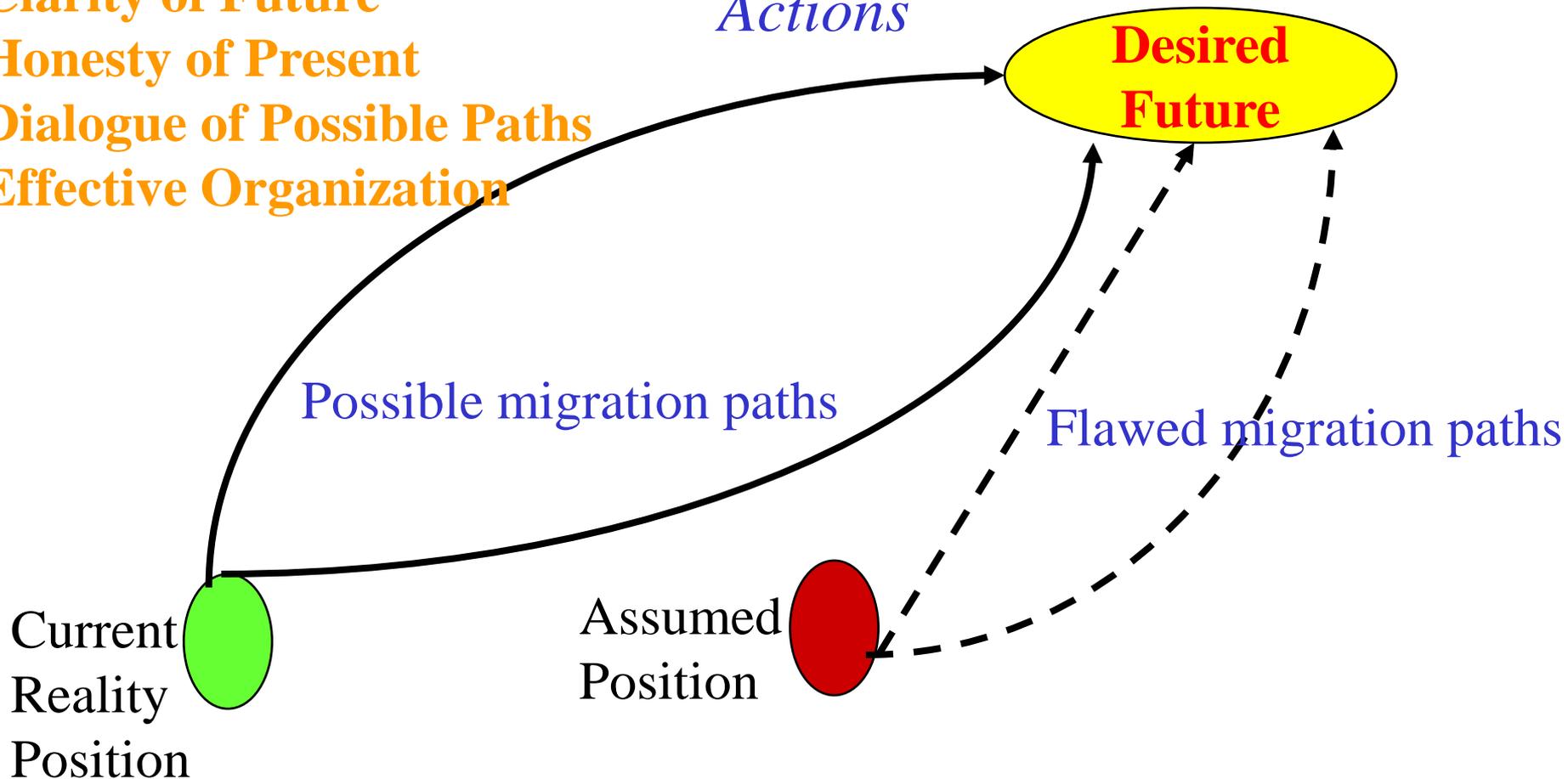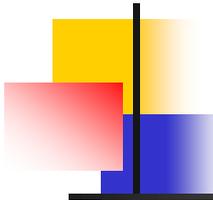
What is Strategy Execution?

- A systematic process for achieving strategic objectives and plans
  - Exposing reality and acting on it
  - Questioning and rigorously discussing how's and what's
  - Making clear the assumptions about the business environment
  - Assessing the organization's capabilities
- Tenaciously following through, and ensuring accountability
  - Linking strategy to operational activities and the people who are going to implement the strategy
  - Synchronizing people across functions
  - Exercising appropriate levers of control
  - Linking rewards to outcomes
- Execution involves pacing, transition and adaptive change as the situation evolves
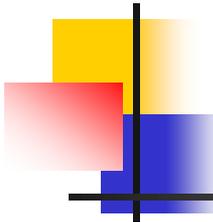
# Why Leaders become highly Unrealistic

- Filtered information
  - No direct contact with people who are deeply involved in the action
  - All information are filtered through layers of management
- Selective hearing
  - Preconceived notions or judging from past experiences
  - Arrogance of success
  - Refusal to confront a problem because they don't see a solution
- Wishful thinking: seeing things as you like them to be
- Fear of embarrassment, of making mistakes, of being judged
- Emotional overinvestment in a project blind them to weaknesses
  - Even those who have led a business turnaround before finds it difficult to confront new realities when the situation changes again
- Unrealistic expectations of capital markets
  - Pressure for steady, predictable improvements
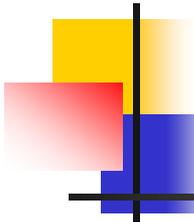
How Organizations become Unrealistic

- Psychological bias to listen to signs that confirm that we are right

- Leaders surround themselves only with like-minded people

- Tendency to shoot the messenger who carries the bad news

- Potential leaders are too fast-tracked and skipped important operational experience

Executing Strategic Initiatives

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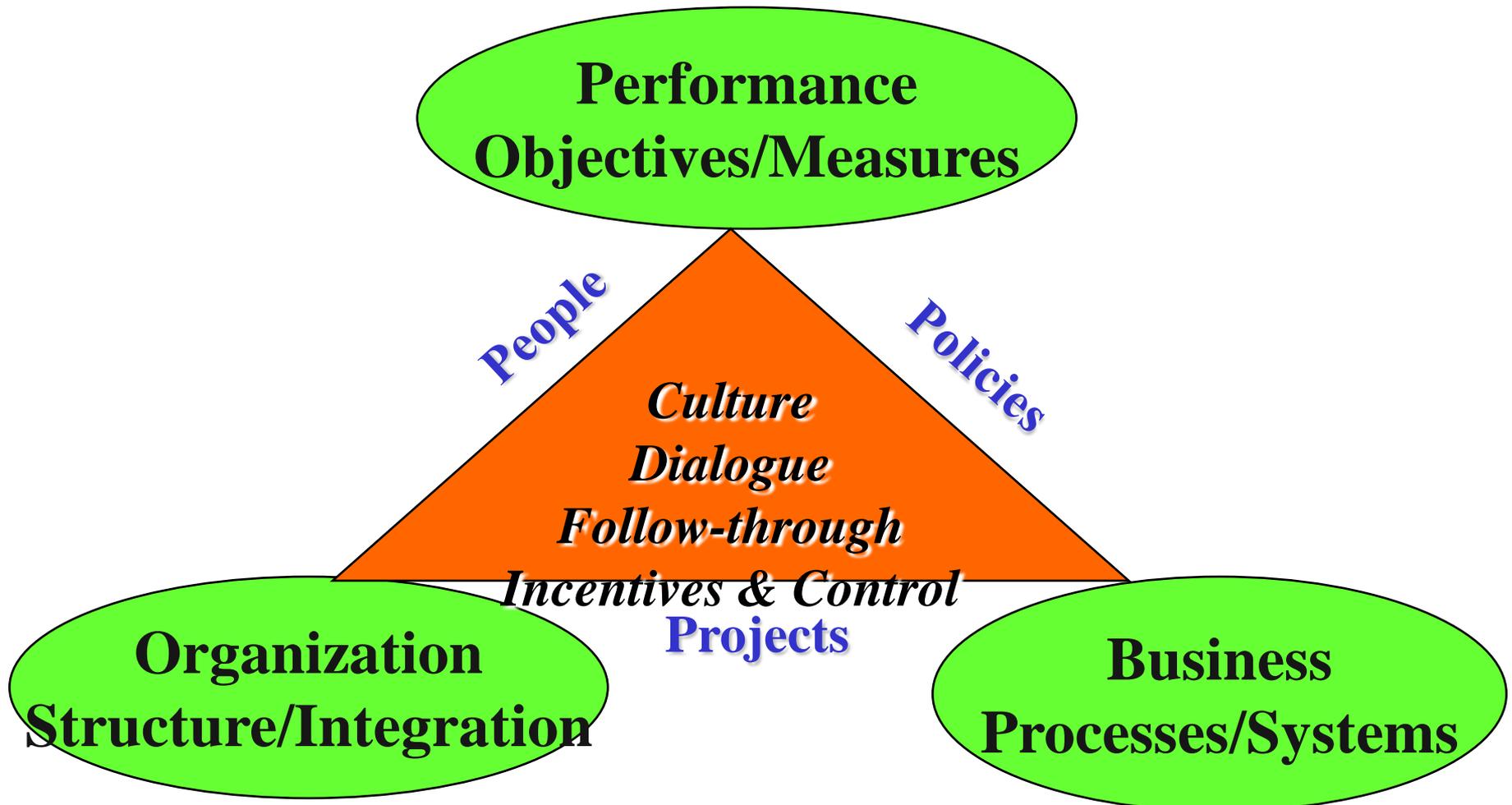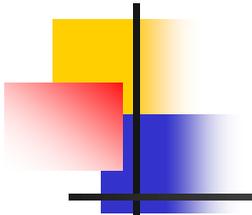
Creating the Framework for Execution Change I

- Set the tone with leader's own interactions and behavior
  - Leaders who are intimately engaged in the business
  - Design strategies that are more roadmaps than rigid paths
  - Not micromanaging
  - Accountability for results
  - Leaders get the behavior they exhibit and tolerate
- Robust dialogue to surface the realities of the business
  - Skills in conducting candid, realistic dialogue
  - Raising the right questions
  - Debating and making right trade-offs
  - Finding realistic solutions
- Controls that balance empowerment and risk management

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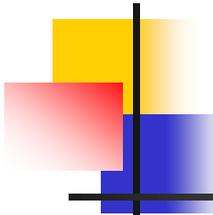
Creating the Framework for Execution Change II

- Strategy reviews that have rigor, intensity and depth
  - Intense focus and incisive thinking
  - Intellectual challenge in not only generating ideas but also the rigorous and tenacious work of developing and proving the ideas
  - Getting to the heart of an issue through persistent and constructive probing
- Follow-through with performance reviews and honest feedback
  - From what objectives to what results
  - Where/When was action taken
  - What worked, what didn't and why
  - What did we learn and what do we do next
- Link rewards to behavior and performance
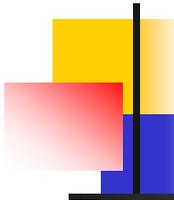
Emotional Fortitude of Leaders

- Emotional fortitude enables you to
  - be honest with yourself, to accept and deal with your own weaknesses
  - deal honestly with business and organizational realities,
  - give people forthright assessments, be firm with people who aren't performing
  - accept points of view that are the opposite of yours
  - deal with conflict, and have the confidence to encourage and accept challenges in group settings
  - handle the ambiguity inherent in a fast-moving, complex organization
- Emotional fortitude comes from:
  - Authenticity: you are real, not fake
  - Self-awareness: including your blind sides and emotional blockages
  - Self-mastery: take responsibility for your behavior, adapt to change, embrace new ideas, and adhere to your standards of integrity and honesty under all conditions
  - Humility: able to contain ego and keep it in check
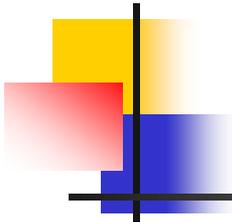
Robust Dialogue

- Brings reality to the surface through
  - Candor
    - Create informal atmosphere
    - People go in with open minds (believe there are no predetermined outcomes)
    - Expresses real opinions (not just politically correct ones)
    - Prevents stalled initiatives and rework that drain energy
  - Clarity
    - Invites questions, encouraging spontaneity and critical thinking
    - Encourages people to test their thinking, to experiment, to cross-check assumptions
  - Commitment
    - Summarizes agreements and actions steps
    - Enables people to take risks among colleagues, bosses and subordinates
- Reduce feelings of fear, threat and embarrassment

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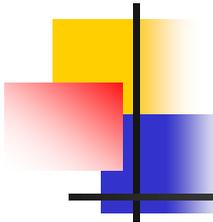
Dynamic Governance??

- An oxymoron?? Is it possible?

- Dynamic people, policies and processes
  - Energetic and quick executions in pursuing goals
  - Entrepreneurial, innovative and fresh ideas in handling issues
  - Effective and adaptive responses to changing conditions

- Not knee-jerk reactions or blind imitations
  - Events are inherently uncertain and unpredictable
  - Strategic response in a crisis requires understanding of structural change and the long-term investments needed
  - More strategic opportunities may arise in a crisis
  - There may be a greater political will to undertake difficult measures for survival
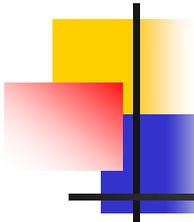
Can Public Institutions be Dynamic?

- Public agencies are not organized to act
  - Fast, with energy
  - Flexibly, with enterprise
  - Frequently, without losing sight of purpose
- Typical image of public institutions
  - Bureaucratic, slow and stodgy organization
  - Enforcing outdated rules and procedures religiously
  - Without care for the needs and concerns of citizens or customers
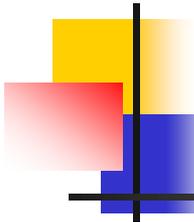
# Dynamic Governance is the Key to Sustained Survival and Success

- Mere one-time adoption of good governance principles and practices is not enough
  - Practices may reflect past experience rather than future conditions
  - Even good practices can become outdated as circumstances change
- Dynamic governance is about rethinking, reviewing and renewing policies
  - To meet future changing needs and requirements
  - To improve performance in the current changed circumstances
  - To incorporate new ideas and learning from others
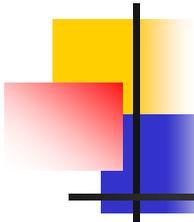
Impediments to Dynamic Governance

- Not perceiving or comprehending the changes in the environment that made current rules, policies, structures and programs obsolete and ineffective

→ Cultural beliefs and assumptions act as a filter to block out certain perceptions or color the interpretations of new developments

- Not being able to make the necessary institutional adjustments or policy changes needed to adapt to the changed environment

→ Organizational capabilities that may be deficient in identifying the issues, designing the solutions, implementing the decision or managing the impacts

Framework for Dynamic Governance
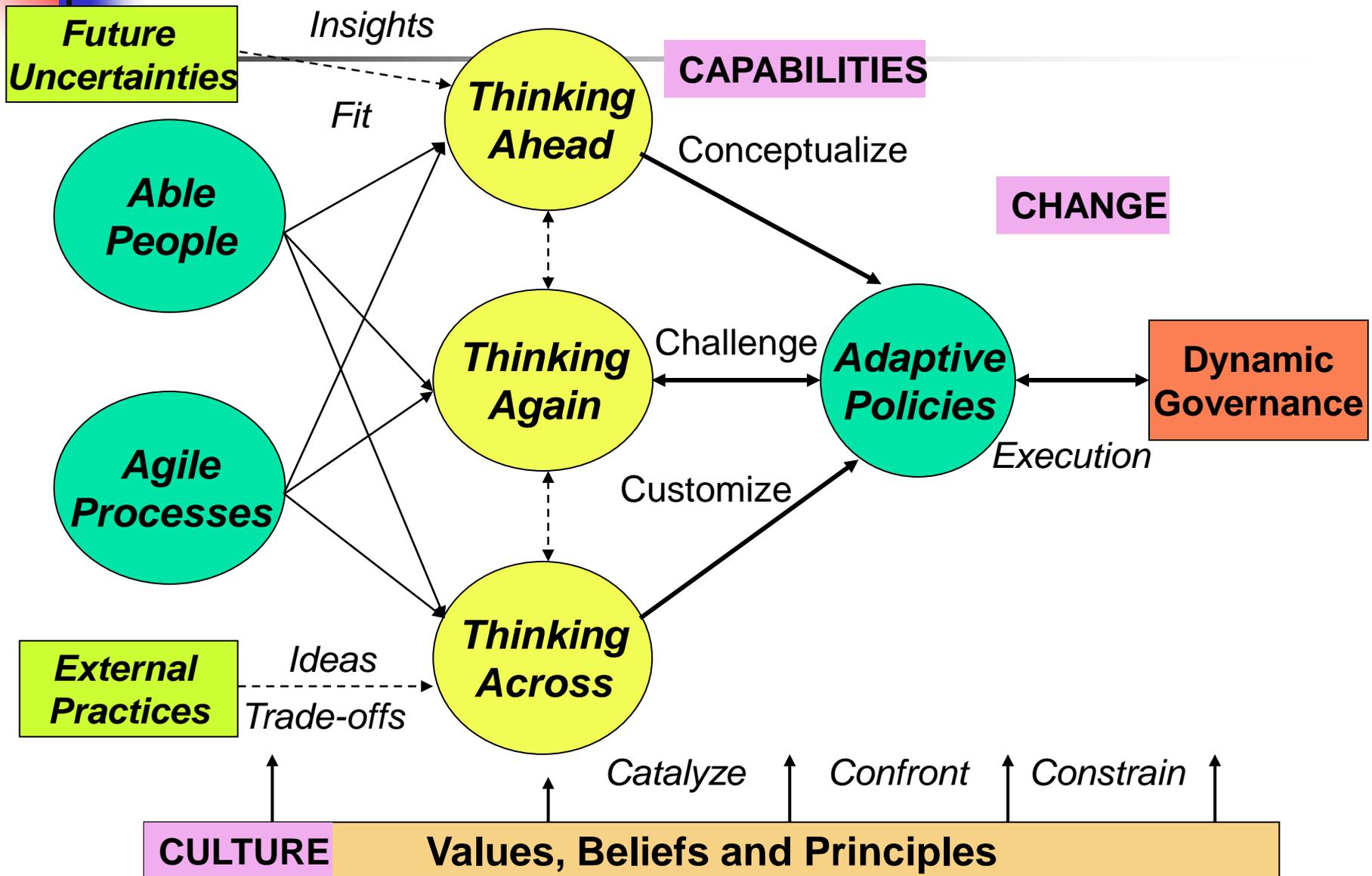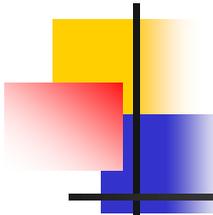
Key Principles

- Embedding culture, capabilities and change is crucial for dynamic governance

- Real progress and change take place when adaptive policies are effectively executed

- Developing the capabilities to think ahead, think again and think across makes possible the formulation of adaptive policies

- Building capabilities in able people and agile processes provide the energies for seeing, starting and sustaining change

- Reforming cultural values and beliefs provide the foundations to catalyze rather than constrain change

- Leadership development is the key for dynamic governance