4 Gaining a Collective Understanding of the Strategy Development Challenge

It always seems impossible until it is done—Nelson Mandela

In Lewis Carrolls' novel *Alice's Adventures in Wonderland* (Carroll 1865), Alice asks the cat which way to go? To which the cat replied, "that depends on where you want to go?" Similarly, in strategy design, it is important to have a goal in mind before starting. This goal, broadly speaking, is made up of two characteristics, that is,

– the *target industry* in which to compete, and
– *guiding principles* to follow.

When talking about industry, it is important to consider the industry as seen from the customers and their jobs-to-be-done perspective. This is especially relevant when aiming at extending or even disrupting the core industry a firm is competing in. This means, for example, focusing on transportation rather than automobiles, overnight stays rather than hotels, or emergency services rather than hospitals, to name just a few. Defining the industry is at the heart of defining the scope of any strategy design activity. In some cases, it may be appropriate to aim at a technology or a customer segment, rather than an industry as target, if the focus is on inventing something new.

Defining the two characteristics, target industry and guiding principles, sets the stage for designing a firm's strategy. Combined with identifying the key stakeholders that need to be involved at one point or the other during the strategy design process, an initial budget, an expected timeline, an innovation culture, inherent risks, as well as an assessment of the capacity to change of the firm, they form the *strategy brief*. The strategy brief is a short document, prepared by executing process B, focusing on ensuring that everyone starts on the same page. It is written by the strategy team members and confirmed by the stakeholders responsible for the firm's strategy.

Although usually a static document, the strategy brief may be updated during the strategy design process if the findings warrant it. In such a situation it needs to be re-confirmed by the stakeholders responsible for the strategy and communicated to all other stakeholders involved, especially the strategy design team.

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Process B—Strategy Brief

B.1 Defining the strategy project set-up:

(1) Identifying key stakeholders and their roles, including strategy project team members
(2) Fostering an innovation culture
(3) Defining an initial high-level budget and an expected timeline
(4) Assessing the firm's capacity for change as well as determining potential risks arising from strategic decisions

B.2 Identifying the target industry in which the firm aims at competing
B.3 Documenting the guiding principles to adhere to

4.1 Strategy Project Set-up

During the strategy project set-up, the environment in which the new or revised strategy is designed, agreed upon, and communicated in a trusted and transparent way is defined.

4.1.1 Identifying Key Stakeholders and Their Roles

It is best practice to start by identifying all stakeholders involved in the strategy design process and their expected roles at the forefront in a stakeholder map. Stakeholders actively involved in developing the strategy can be classified into four categories:

(1) *Decision takers*, responsible for approving the outcome of the different layers of the strategy design process, the milestones.
(2) *Strategy designers*, responsible for designing the target strategy, focusing on content and its validation.
(3) *Experts* or *interpreters*, coming from diverse backgrounds and providing fresh ideas from different industries.
(4) *Process supporters*, managing and supporting the strategy design process.

During the execution of the strategy design process, multiple additional stakeholders are involved, including customer, suppliers, and regulators. It is not necessary to identify all stakeholders at the strategy brief level of the strategy design project. The *stakeholder map*, sometimes called stakeholder list, is an organic document that grows throughout the strategy project.

Tool—Stakeholder Map

The stakeholder map is a document, part of the strategy brief, describing all stakeholders involved in the strategy design process and the formal, as well as informal, relationships between them. It determines, for each stakeholder,

- their *role* within the strategy design process,
- their *relevance* to success and power to influence success, and
- their *stands* with respect to change.

Figure 4.1 illustrates the typical structure of a stakeholder map. Closest to the center are those stakeholders that are key to success of the strategy design process, surround by most relevant input providers. The outer circle is made-up of stakeholders that are involved at one point or another during the strategy design process, rather than on a continuous base. Nevertheless, they are important. Failing to consider them may, as has been the case many times in the past, derail a strategy design project that was considered sound.

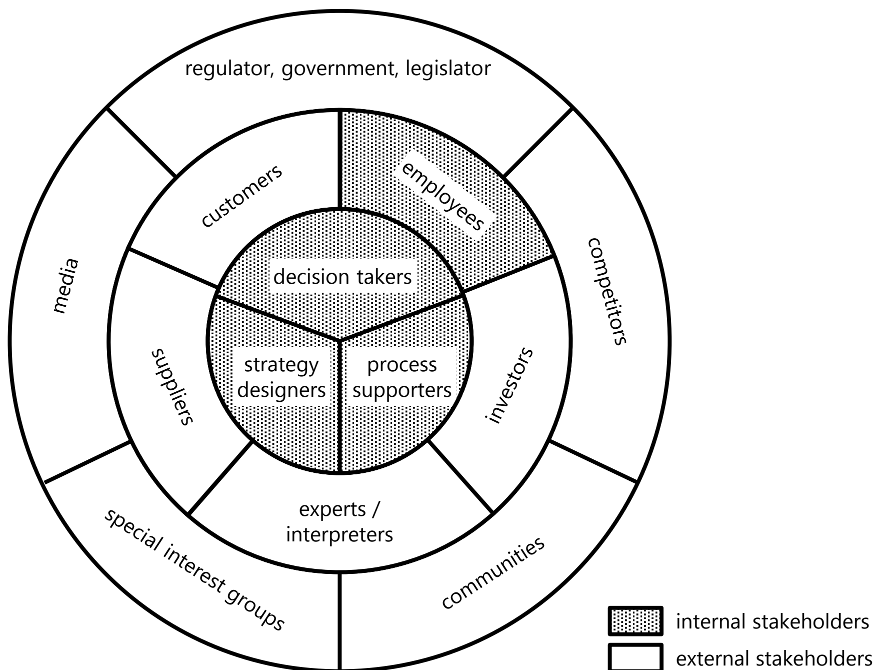

Fig. 4.1 Typical structure of a stakeholder map

4.1.1.1 Decision Takers

Depending on the applicable national legislation and the firm's governance structure, *decision takers* are members of the board of directors, the management board, or the executive committee. Strategy related decisions must never be delegated to a lower level in the hierarchy of the firm.

To be successful, it is critical that the most important decision takers are involved, or at least informed, all the way along the strategy design process. Decisions, especially at milestones, should always be taken by the same individuals or teams. This guarantees consistency and minimizes the risk of derailment due to so-called politics. Relying on external experts or consultants for decision making must be avoided. Only decisions taken by convinced decision takers having gained the required insights are able to support the decisions made, leading to sustainable success. The group of decision takers should be small and proper accountability must be ensured. Voting based decision taking should be avoided, as it leads to mediocrity.

4.1.1.2 Strategy Designers

Strategy designers form a small team, called the *strategy team*, composed of five to ten mostly senior strategists, ideally complemented by board members and senior executives. Creative, forward thinking are key skills that strategy team members must exhibit. *Strategy designers* are in charge of designing and validating the strategy. Ideally, all decision takers should be strategy designers, ensuring buy-in into the final outcome. The more the decision takers are involved in the day to day aspects of the strategy design process, the better its results (assuming a constructive mentality). Strategy designers actively take responsibility for the content produced during the various steps of the strategy design process. Key strategy design work must never be outsourced to external experts or consultants.

4.1.1.3 Experts or Interpreters

Experts, called interpreters by Verganti (2009), should have diverse backgrounds and provide fresh ideas. They should be people who look and think beyond the obvious. They should come from different industries, but be proficient in similar contexts, acting as bridge-builders. Their role is to offer new insights and distinct perspectives during observing and learning from target populations. They stand for supporting an extreme discourse during ideation. To avoid a selection bias, that is, choosing those experts whose opinion matches one's own, interpreters should be selected before starting the strategy design process. Experts are usually called-upon during specific phases of the design thinking process when their input is most relevant. Often experts are members of the strategy team, although this is not strictly necessary.

4.1.1.4 Process Supporters

The fourth category of core stakeholders, the *process supporters*, is not less important because they discharge the strategy team, but also because they require distinct capabilities, notable process and information structuring skills. The two types of process supporters are:

(1) *Process moderators*, *facilitators, and coaches*, supporting and moderating the strategy design process, driving the production of the content throughout the strategy design process.
(2) *Process managers*, managing the process, including documentation and communication. They are usually senior employees of the firm, driving its form, especially the timeline and budget of the process. They are responsible for managing the interface between the strategy design process and stakeholders.

Ideally, the strategy design process is facilitated by one or two independent external strategy coaches. These coaches need to be familiar with the strategy design process and the goals to be achieved at each of its layers and steps. They should also feel at ease with the target industry to ensure the right questions are asked but need not be industry experts. The independence of the coaches ensures that the strategy design process is run as objectively as possible, avoiding any biases, from the "not invented here" syndrome, through leaping, fixating, and overthinking, to satisficing, downgrading, and self-censoring (May 2016).

4.1.2 Fostering an Innovation Culture

Creativity in strategy design requires an *innovation culture*. The innovation culture should be designed into the strategy brief, rather than being developed during the strategy design process. An innovation culture has not to be mistaken for ping-pong tables, lounges to chill, or free food. It is about recognizing and valuing uncertainty, ambiguity, and allowing for temporary failure. Successful innovation cultures embrace experimentation. They require strategy team members to bring six key qualities to the table (Mootee 2013), that is,

- *intelligence*,
- broad *knowledge*,
- an *open-minded* thinking style,
- a *team player* personality,
- *motivation*, and
- *comfort* in a changing environment.

An innovation culture must not only focus on individuals, but also on the firm as a whole. To be successful, firms aiming at exhibiting a successful innovation culture must address tree key challenges (Govindarajan and Trimble 2005):

(1) The *forgetting challenge*—Innovative firms allow things to be done differently than they were done in the past. This requires overcoming sources of organizational memory, which in many organizations are very powerful, as firms naturally cling towards operating the way they always have done.
(2) The *learning challenge*—Strategy is, by definition, based on facing the unknown. The best way to face this unknown is through experimenting and learning from the outcome of the experiments. Innovative firms excel in the art and science of experimenting and learning from their results.
(3) The *borrowing challenge*—Most firms do not operate on a greenfield. They have access to exiting assets and capabilities. Innovative firms are able to leverage these values without reverting to the existing course of action.

4.1.3 Budget and Timeline

Preparing a reliable budget and timeline for strategy development, especially when aiming at a disruptive strategy, is a challenge. Let alone when using an abductive approach such as design thinking, that aims at optimizing resources used in a just-in-time way. This means, that traditional approaches based on formulating business cases and calculating net present values, will fail.

There exist three guiding principles to follow when deciding on an initial budget (internal, as well as external, resources and funds) and a preliminary timeline.

(1) The budget and timeline determinations should focus on the next decision to be made by the decision takers, at the milestone, or even at the process step rather than on the full strategy design process.
(2) Key indicators relevant to supporting the targeted decisions, that is, the strategy brief, the strategic focus (outcome of the foundation layer), the detailed business model (outcome of the business model layer), the competitive advantage, and the to be communicated strategic message (outcome of the competition layer) should be used to derive initial budget requirements and timeline estimates in terms of

    - *internal resources* required,
    - *external expertise* and manpower needed as well as their expected costs,
    - *funds* required to buy data and insights, and
    - *scheduling* of the expected activities on the timeline based on resources availability.

(3) Estimates should be refined after each decision step for subsequent steps maintaining the trust of the decision takers.

A separate budgeting and timeline determination process should be conducted for each of the three layers of the strategy design process (see Chap. 5 for further

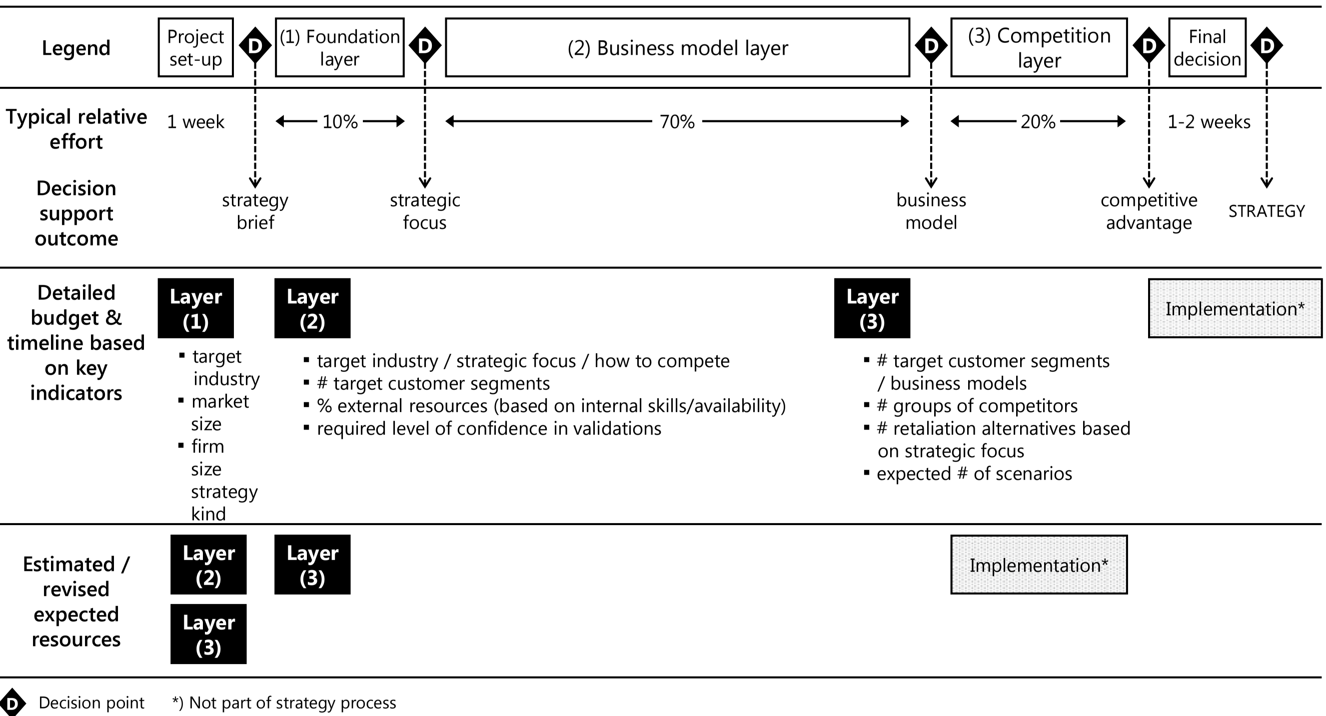

Fig. 4.2 Typical budget and timeline determination process based on the three-layer strategy design process described in Chap. 5

details on the three-layer strategy design process), starting the next layer budgeting and timelining only at the end of the previous layer as shown in Fig. 4.2. Subsequent budgets and timelines may be decided for each of the four design thinking process steps, observing, learning, designing, and validating, of the business model layer. Sometime, especially in larger strategy projects, it may be sound to manage budget and timeline at the target customer segments and jobs-to-be-done level during the observing and learning step, at the prototype level during the designing step, and at the experiment level during the validation step. The strategy design process, by its nature, focuses on optimizing resources, without giving up the quality of the targeted results.

It is important that budgets and timelines are perceived as best guesses at the time they are defined and not as the absolute truth. They should be updated and communicated to decision takers, each time new insights have been gained that have a significant impact on them, either positive or negative.

4.1.4 Assessment of the Change Capacity of and Underlying Risks for the Firm

Assessing the *change capacity* of a firm is like solving the "chicken and egg causality dilemma—which one came first". Implementing a new or revised strategy in an organization requires it to change. But any organization can only take so much change at a given point in time. In addition, change results in disruption, which inherently increases existing and opens the firm to new business risks. Both aspects need to be well understood. Even though the strategy design process should not be primarily driven by a firm's capacity to change, understanding the boundaries towards change helps make strategic decisions that are implementable in a sustainable way.

Assessing the capacity to change of a firm, its management, its employees, and partners as well as suppliers, reverts to answering a set of questions. The answer to each of the questions should be assessed, for example, on a scale of very weak to very strong, relative to whether they inhibit or support change. Averaging the obtained scores, or even better calculating medians, quantifies a firm's perceived capacity towards change. The list of fifteen questions in Table 4.1 describes a typical set of questions to ask and answer. They focus on the five dimensions:

(1) Relevance of change.
(2) Emergency of change.
(3) Speed of change implementation.
(4) Experience with change.
(5) Expertise with change.

These can be represented using a spider diagram as shown in Fig. 4.3.

The capacity to change assessment questions can be classified into three categories, relating to senior management, to employees, and to external stakeholders.

Table 4.1 Sample list of questions to answer for determining a firm's capacity toward strategic change

Questions—To Senior Management
(1) What are the drivers behind changing/amending the strategy and how important are they for the success of the firm (relevance of change)?
(2) Is updating the strategy a top-priority issue or just something the firm feels they should deal with (urgency of change)?
(3) How important is it for senior management to see tangible results quickly (speed of change implementation)?
(4) Has the firm previously been successful in attempts to develop new or update existing strategies (experience with change)?
(5) How significant is the firm's knowledge around developing and implementing strategic changes (expertise with change)?
Questions—To Employees
(6) To what extent does a strategy project respond to goals employees see as important (relevance of change)?
(7) How enthusiastic have employees been in the past towards strategic change (urgency of change)?
(8) What is the employees' attention span relative to change (speed of change implementation)?
(9) How successful were past change initiatives from an employees' perspective (experience with change)?
(10) How significant is the employees' demonstrated capacity to absorb new ideas and exploit them usefully (expertise with change)?
Questions—To External Stakeholders
(11) How significant is the external pressure towards strategic change (relevance of change)?
(12) How eager are external stakeholders to see strategic change happen and how will they be affected by it (urgency of change)?
(13) How quickly do external stakeholders, especially investors, want to see tangible results from strategic change (speed of change implementation)?
(14) In what roles have external stakeholders been involved in strategic change in the past and what were their impact on it (experience with change)?
(15) What criteria do external stakeholders apply to value the success of any strategic change (expertise with change)?

The questions should be adapted and amended to the specific strategic challenge at hand at each firm.

As with any change undertaking, a risk assessment must be performed beforehand. There exist two categories of risk to consider, that is, those inherent to the strategy design process undertaking, and those risks resulting from the outcome of the strategy design process, that is, surfacing during strategy implementation. For each risk, its severity and probability must be estimated, and possible mitigation scenarios defined. Table 4.2 illustrates some of the most common risks found in relation with developing strategies.

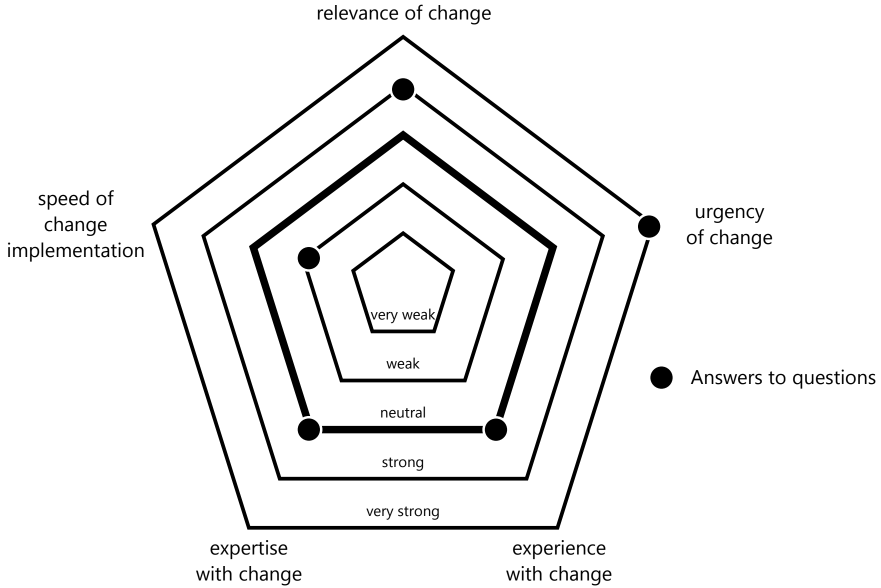

Fig. 4.3 Spider diagram representing the firm's average or median capacity to change along five key dimensions

Table 4.2 Sample list of some of the most common risks identified during strategy development

Risks—Related to Strategy Development
(1) Decisions taken at milestones are subsequently questioned and/or revised, unnecessarily lengthening the strategy design process
(2) Decision takers change during the strategy design process, leading to inconsistent decisions, making the buy-in at the end hard
(3) Key strategy team members leave without transferring their knowledge to other team members
(4) No common strategic focus can be agreed upon, failing to move to the business model layer of the strategy design process
(5) Too much time is spent in the observing step O, versus the designing step D, resulting in irrelevant analysis and inefficient use of resources
(6) Key assumptions are not validated because strategy team members believe they know better
(7) Assumptions to be validated are incorrectly prioritized, scheduling the testing of key assumptions that could invalidate the overall designed strategy, at the end of the validation step
(8) Validations take too much time and cost too much money, because an excessive level of precision is thought after
(9) During validation, assumptions are being marketed rather than tested, leading to biased results
(10) Competitors and their potential reactions are ignored while developing the overall strategy

4.2 Target Industry

Before being able to initiate the strategy design process, the *target industry* must be identified. There exist two different approaches for choosing a target industry in which to compete, depending on whether taking an incumbent or start-up approach or whether starting from an existing, often already mature, business. In both cases, a sound understanding of potential target industries is required. There exist numerous approaches to acquire that knowledge, such as reading about an industry, participating in trades fares, attending conferences and seminars, or interviewing experts, to name just a few. Determining and acquiring the knowledge needed to select a given industry without wasting resources is more an art than a science and requires experience. As the strategy design process is iterative, if at a later stage, the targeted industry is found to be defined to broadly or too narrowly, its definition should be refined. Refining the target industry during the strategy design process is to be perceived as an opportunity rather than a flaw.

4.2.1 Incumbents

Depending on the viewpoint, incumbent firms have an easier or more difficult stance selecting a target industry—easier, as they can choose on the greenfield, harder, as there is not existing infrastructure in place. The lightweight business model helps structuring the search for an appropriate target industry. Its four components provide four different directions along with to search.

First, incumbents may select a group of customers and associated needs to be satisfied. These needs then lead to a target industry which aims at satisfying them. For example, the needs for transferring money between families in third world countries may be considered. This would lead to identifying the payment industry as target industry in the strategy brief. In general, the target industry should be defined in rather broad terms, avoiding giving up opportunities too soon. But it must be focused enough to avoid the "lost in translation" effect.

Second, focusing on a specific technology, or more broadly speaking, an invention, can serve for defining a target industry. As an example, consider the blockchain technology, providing an immutable general ledger. As the traceability of the origin and authenticity of art collectibles is a big challenge, the art authentication industry may be identified as a valid target industry applying blockchain technology. Only identifying a technology without a targeted industry will lead to phishing in the dark expeditions and is to be avoided.

Third, incumbents may select the target industry based on specific, hard to imitate capabilities they possess. Such capabilities may be the miniaturization of electric circuitry. Possible target industries could be the spying device industry or the hearing aids industry, both industries being driven by miniaturization of electronic circuitry. Another capability driven example would be incumbents specialized in supply chain management. A target industry to aim at could be grocery

stores, ensuring delivery of always fresh fruits and vegetables. Amazon follows such an approach with most of its business opportunities.

Fourth and last, but not least, incumbents could focus on cost sensitive industries, or industries that would profit from increased cost consciousness. A typical example in this category would be the airline industry. EasyJet follows such a strategic direction. But, focusing on the airline industry does not necessarily mean, engaging in the discount airline business. It can also mean, becoming a supplier that allows airlines to save time or money, for example, through improved luggage handling and tracking.

A key mistake to avoid is choosing a generic type of strategy, such as a platform or a fast-follower strategy, and then identifying an industry to which to apply it. This type of reverse engineering of strategies fails more often than not.

4.2.2 Mature Firms

In contrast with incumbents, mature firms already compete in one or more industries. To define the target industry underlying the strategy design process, mature firms have three options to choose from, that is,

- continuing to compete within their *core industry*,
- extending their core industry by defining the target industry as a *related or adjacent industry*, and
- choosing a *new core industry* to compete in, following an incumbent-like approach.

Most mature firms select their existing industry as target industry. Unless the industry is structurally declining, for example, due to societal changes, staying with what the firm understands best is a sound choice. Staying in the same industry as in the past does not mean, that the strategy should remain unchanged. On the contrary, keeping or regaining a competitive advantage almost certainly requires changing, or at least, adjusting the existing strategy. For example, firms competing in the premium watch industry have remained in the core industry, and still re-invented their strategy time and time again.

The second option for selecting the target industry is extending the core business by moving into adjacent industries. Zook (2004) advocates this approach. A typical example of a firm having taken this approach is Microsoft, moving from operating systems, to office applications, to search engines, to developing tablet devices, up to offering cloud services. The lightweight business model helps identifying adjacent industries. Adjacent industries are those industries that share one or more components of their lightweight business model and differ, ideally be complementary, in others. A typical example are grocery stores, extending into the on-line and home delivery industry. The customer component of the lightweight business model remains largely unchanged, whereas the capabilities are extended by an on-line platform and home delivery services.

You may think that the third option, choosing a new core is not sound for mature firms. If so, think about Nokia. Nokia was founded in 1871 as a pulp mill. In the 1990 it was leader in mobile phones for retail customers. In 2014 it entered the digital health market, an industry far away from its previous core, mobile telecommunication infrastructure. More often than not, selecting a new core, different from the current one, as target industry, is chosen when the existing industry is in structural decline or significant poor management decisions have brought the firm to the verge of bankruptcy. Kodak is probably the most prominent example in this category.

4.3 Guiding Principles

Relying on sound guiding principles during the strategy design process is important for its success. Guiding principles summarize fundamental beliefs that need to underlie any strategy design activity. They are usually firm specific, subjective, and not verifiable. They are the strategy's axioms.[1] They are important to keep the strategy design process on the right track. They provide boundaries avoiding getting lost or getting stuck. Sometimes guiding principles are called design criteria (Liedtka et al. 2014). Ideally, they are actionable, specific, and unique No matter how great an idea will be, it will ultimately be subject to the firm's standards and principles (Mootee 2013).

Guiding principles can be classified into four different categories, that is,

- things that must be satisfied,
- things that should be satisfied,
- things that should be avoided, and
- things that must be avoided at all cost.

Guiding principles should be kept abstract and down to a minimum. Usually, two to three guiding principles per category are reasonable.

A typical guiding principle defined in the strategy brief targeting the transportation industry could be that the strategy should have a positive impact on the CO_2 emissions, or that the strategy must avoid any conflicts of interest with customers at all cost. Guiding principles may vary significantly from firm to firm. When developing disruptive or blue ocean strategies (Kim and Mauborgne 2005), guiding principles may not even be needed.

Even though, it is best practice to define all guiding principles up-front, they may be amended and revised over time during the tree layers of the strategy design process. If done so, it is important that they get re-confirmed by the decision takers, responsible for the final strategy result.

[1]An axiom is a statement that is taken to be true and serves as a premise for reasoning and arguing about strategy.

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