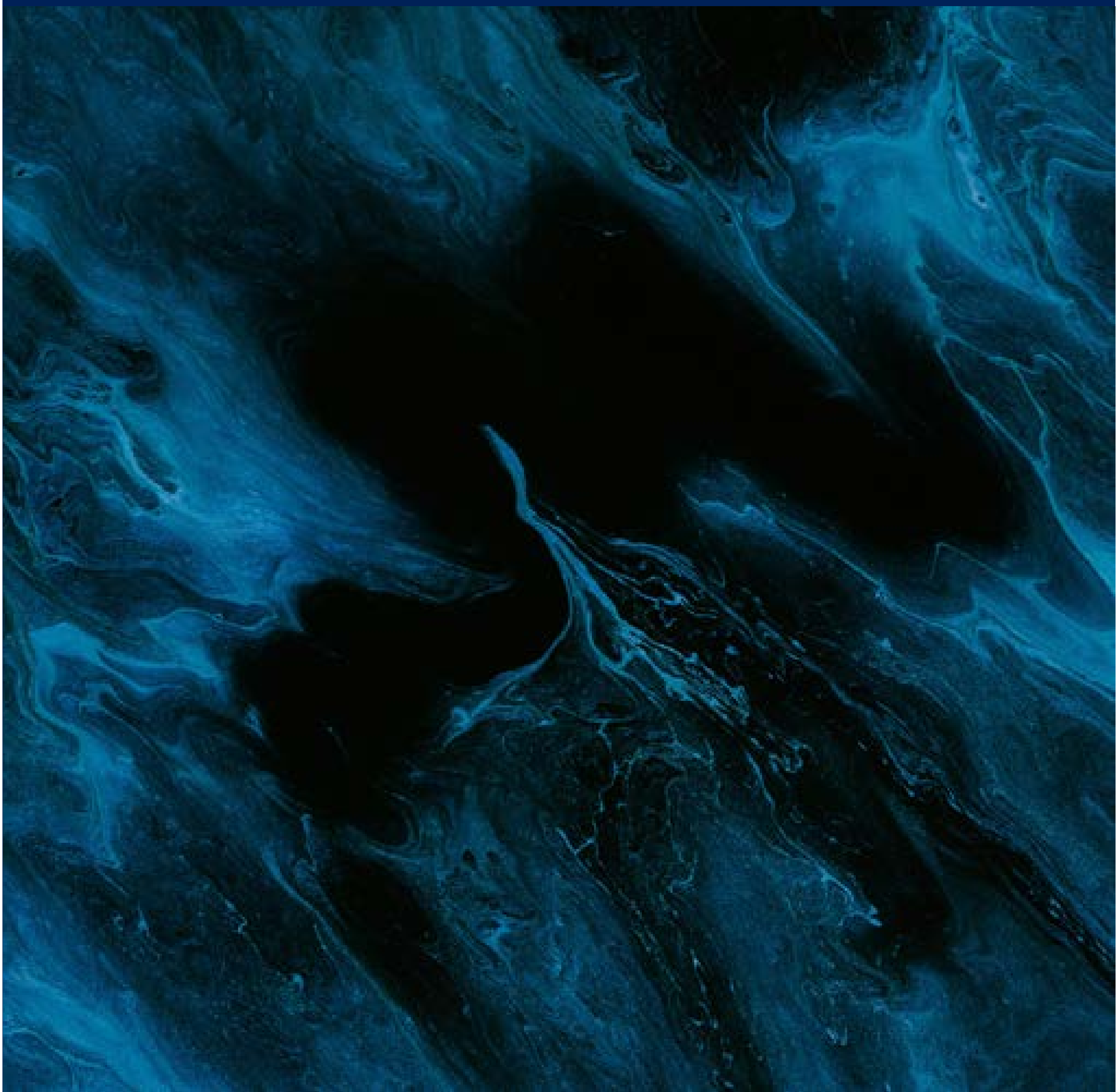
RAFFLES LEGACY LEARNING

BUSINESS STRATEGY MASTERCLASS

BOOK ONE - KEY ELEMENTS OF STRATEGY

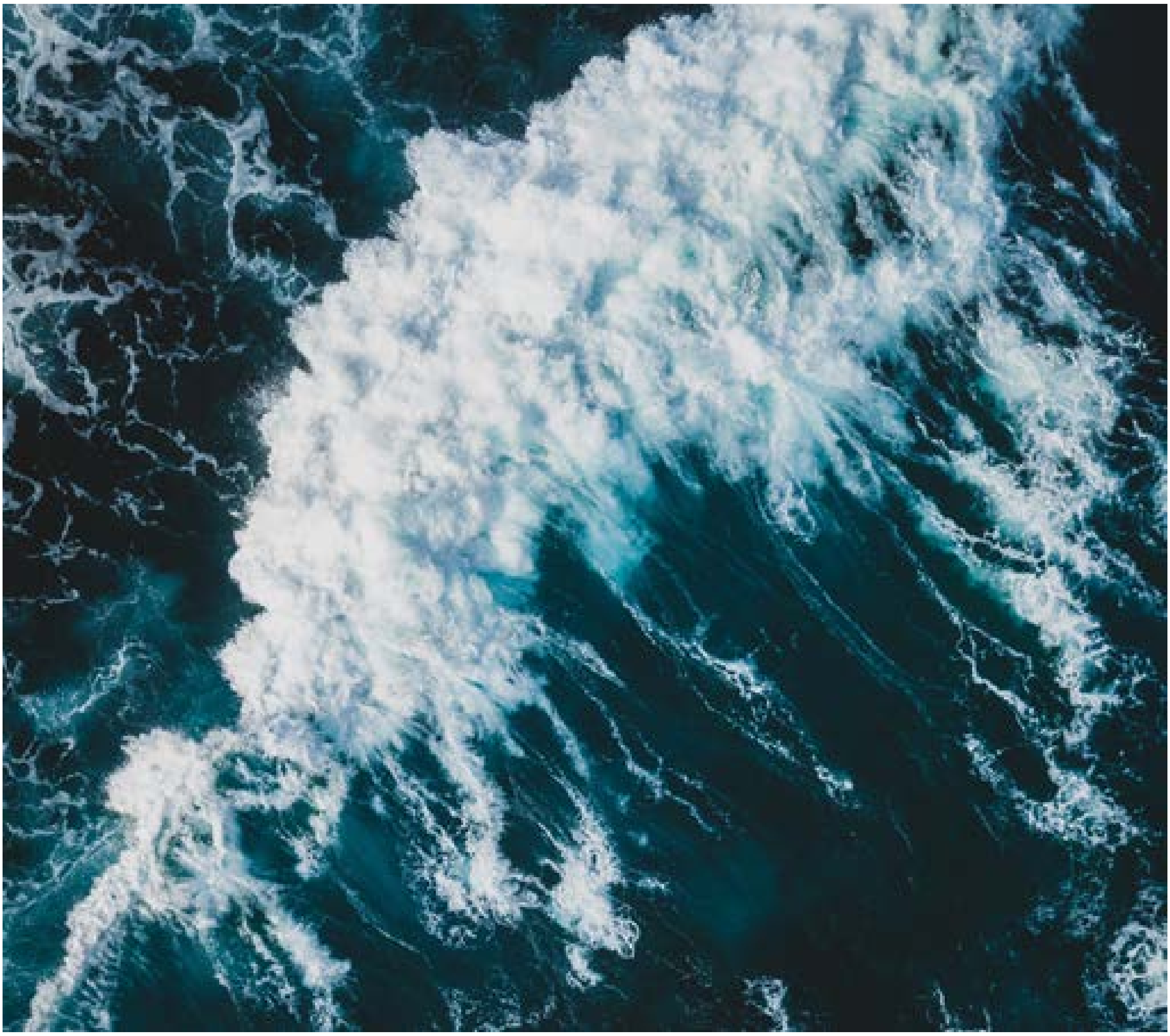
PART I - HISTORY AND OVERVIEW OF STRATEGY



MASTERCLASS COURSEBOOK

Contents

BOOK ONE – KEY ELEMENTS OF STRATEGY



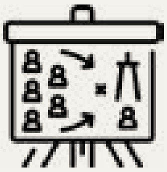
AN INSIGHTFUL PROCESS

After reading through the sets of prompts, principles and ideas that make up Part One of this book and deciding on which ones might find a good home in your strategy, you can refer to them in Part Two as you proceed on a step-by-step basis to create your own practical strategies.

It may even be worth a second quick scan of Part One after completing Part Two to see if there are models, ideas and approaches that may fit into, or help to refine, your now more fully developed strategic designs and tactical approaches.

There are at least seven primary sources of knowledge and wisdom which contribute to the creation of the modern art and science of strategy: grand military strategy, the martial arts, micro- and macro-economics, science, psychology, politics, experience and intuition.

Each of these separate disciplines contributes specific content to the evolution of business strategy:



1 Grand Military Strategy

2 The Martial Arts

3 Economics

4 Principles of Science

5 Psychology

6 Politics

7 Experience and Intuition

1. Grand Military Strategy

At the highest level, there is much in common between military and business strategy. Grand military strategy is about the overarching vision of a campaign, the formulation of campaign objectives, and a winning approach to a war or series of conflictual engagements.

Military strategy includes the gathering of information and intelligence, the formation of alliances, the mustering and management of resource and matériel, the selection and training of manpower, the selection of sites and nature of battle, and the setting of rules of engagement.

Grand military strategy, like business strategy, is often as much about winning the hearts and minds of your armed forces as it is about the scientific principles regarding the deployment of weapons or the engagement of enemy troops.

2. The Martial Arts

The Chinese military sage Sun Tzu is perceived by many strategists as the leading proponent of Asian military strategy at a grand level, but the Japanese sword master Miyamoto Musashi is perhaps equally esteemed as a master of individual combat. This 17th century author of the famed Book of Five Rings (*Go Rin No Sho*) has played an important role in the history of strategy.

Miyamoto Musashi's guide to sword fighting strategy demonstrates the need for a comprehensive understanding of all aspects of life - and of your competitors - to develop *The Way of Strategy*. Through *The Way*, an opponent's likely moves can be predicted and a warrior can engage in individual combat armed with advance knowledge and a planned approach to each situation.

The Japanese art of sword combat, Kendo, like all martial arts, includes a vital element of reaching deep into the self to access great reserves of force and power; the deeper the personal engagement, the greater the force available to support focused action, powerful impact and needed change.

3. Economics

The 'dismal science' is the source of much strategic knowledge. From the macro-economic views on industrial economics and sources of national competitive advantage to the microeconomic principles of equilibrium pricing, the econometric and theoretical aspects of economics can be played out as useful sources of strategic insight.

4. Principles of Science

The fundamental principles of science, and the particular discipline of dynamic systems behavior, underlie many principles associated with strategy. Momentum, focus of force, conservation of energy, inertia, and thermo-dynamic efficiency can be applied to extract useful operating insights leading to profitable action.

A diffusion or inadequacy of energy, contrary or misaligned effort, and a failure to respect the fundamental principles of "strategic gravity" can lead to a painful and expensive lesson for uninformed strategists.

To effect change across a large organization currently characterized by reluctance, resistance and inertia, managers must take into account the amount of energy required to get the whole system moving at the right speed again. Similarly, if a business is way off track, its leaders will need to invest a large quantum of energy - human, financial, and operational - to get the business back on the correct pathway.

5. Psychology

Ego, identity, ambition, interaction, belief, attitude and behavior are all inextricably intertwined with the strategies and operations of any business, no matter how large or small. Whether related to motivating individuals and teams, organizing collective endeavors, communicating effectively, or reducing fear and building confidence, within every effective strategy lies at least one key element of psychology.

To take one example, the documented human responsive cycle to grief of shock, denial, anger, depression and acceptance, is but one of the many patterns of behavior which has been effectively transplanted from the realm of clinical psychology to modern business strategy. Observed initially in patients who had received a negative prognosis on health, the same pattern is observed in organizations facing great change, such as a merger, sale, reduction in size or a major change in operating practice.

6. Politics

Just as politics, especially international politics, is about leadership, but also about consolidation, alliances, interconnection and the unending competition for resources, economic advantage and growth, the same is true of businesses.

Political science is relevant to both the internal and external operations of an enterprise. Externally, relationships with governments, regulators, shareholders, customers and suppliers call into play the full range of a manager's political skills. Internally, politics are an inevitable part of corporate life.

One great entrepreneur once described an organization without politics as a 'frictionless machine' - great in theory but non-existent in the real world.

7. Experience and Intuition

While there are strategic insights to be gained from military, scientific, political, and other sources of knowledge, there is always room for creativity and insight based on individual experience and intuition.

By looking at examples of inspired creativity, new thinking, and unanticipated action, much can be learned, and new strategic approaches can be evolved with the right degree of customization and adaptation.

None of the individual sources of knowledge defined above can provide a pre-packaged, off-the-shelf strategy. Good strategy draws from all these sources and is then tempered and shaped by experience, creativity and intuition to forge the best possible multi-disciplinary approach to strategy.

The seven traditional models of strategic business analysis can provide some useful contributions to a more modern and complete approach to strategy. Each of these models represents a state-of-the-art model of strategic insight at a particular point in time.

Understanding their sources, applications and purpose may stimulate strategic thinking, generate creative tactical ideas and underpin efforts to restore growth or profitability in a struggling business. Most importantly, an understanding of past strengths and weaknesses will provide valuable knowledge for today's strategy.

However, to unlock the full potential of your business you will need to go well beyond the demonstrated limitations of these past approaches:

1 The 3C's Model

2 The 5 Forces Model

3 The 7S's Model

4 The 3S's Model

5 The 8 Strategic Laws of Gravity

6 The 9S's Model

7 The 7C's Model

1. The 3C's Model

This simple model of business definition drove much strategic thinking in the 1970s and early 1980s. Following the expansion of the 1960s, and in the wake of the 1973 oil shock, many companies needed to re-define their businesses and restructure their diversified portfolios in order to become more competitive. The model generated to serve that purpose was the 3C's model, designed principally to shape understanding of the borders of independent strategic business units and support portfolio restructuring to remove weak businesses and to focus on the strong.

- Costs
- Customers
- Competitors

Costs reflect the nature and proportion of economic activity within an organization.

Customers are the group whose needs are served by the entire business system of a company.

Competitors are the set of companies pursuing the same opportunities within a defined geographic or product market.

A lack of sharing in all or many of the categories meant that the businesses were essentially separate entities and probably could - and should - be managed as separate strategic units. In many cases, the clarity provided by the application of a 3C's business definition exercise allowed large conglomerates to reshape their portfolios, focus their activities and strengthen a set of fewer, but more successful, business units.

A 3C's business definition exercise should not be static. Its value increases dramatically as the dynamic aspects of business evolution are fully considered. A forward-looking business definition can identify emerging changes in the environment which may, in turn, change the nature of your strategy.

The application of business definition can provide greater clarity to business portfolios and lead to more efficient allocations of staff, capital, and other corporate resources for future advantage.

2. The 5 Forces Model

In his best-selling book, *Competitive Strategy*, Michael Porter outlined the 5 Forces that drive competitive strategies within a properly defined industry.

An enlightened management approach reflecting the understanding of these industrial forces can lead to superior competitive performance and higher and more sustainable financial returns to stakeholders in the enterprise.

- Entry of new competitors
- Threat of substitutes
- Bargaining power of buyers
- Bargaining power of suppliers
- Rivalry among existing competitors

Destabilizing and costly, the entry of new competitors in an industry usually requires a response that will absorb scarce resources and reduce overall returns.

Pricing, and therefore profitability, is influenced by the threat of substitutes. Buyers face choices, and the cost-value balance, the other side of the threat of substitutes, has a significant impact on decisions. Competitive gaming will thus be influenced by an understanding of the full set of products available to buyers, not just an internal perspective on value delivery.

The third competitive force is the bargaining power of buyers. The ability of customers to change supplier behavior, primarily through pricing and terms that change the supplier's cost base, has a big effect on the economics of all firms in an industry. The relative power of supplier and buyer can make some industries more attractive and others far less interesting. Major differences can appear in the same industry across geographies. In some industries, this force is clearly the dominant driver of profitability and attractiveness.

Just as buyers will use their influence to drive supplier behavior, the bargaining power of suppliers will do the same when and where possible, exploiting the benefits of their own strengths and strategic position. Microsoft, Intel, and other tough-minded suppliers can often dictate individual terms, and even influence the nature and evolution of an entire industry.

Differing concentrations of the supplier base, control of scarce supply, substitutability, and other factors can drive a competitive industrial dynamic to very different outcomes.

Rivalry among existing competitors will set the competitive rules which shape behavior and establish investment policies and return patterns across an industry. All elements of the business value chain are directly and profoundly influenced by the nature and intensity of existing industry competitors.

Originally seen as descriptive, or as primarily indicative of an industry's potential to earn returns above the cost of capital, these 5 Forces can also be understood and integrated into a winning competitive strategy.

Although Professor Porter did not specifically link the 5 Forces to a predetermined set of firm strategies, he did map out three generic approaches for successful competitive strategy: differentiation, cost-based leadership, and focus.

3. The 7S's Model

The final 7S's - Strategy, Structure, Systems, Staff, Skills, Style, and Shared value - have been a staple of most strategic diets for a long time, and still inform many approaches to organizational design and strategic review. The 7S's model, due to its significance, will be addressed separately in Element 3.

The 7S's model, associated primarily with the consulting firm McKinsey and Company, resulted from a fusion of insights that emerged from working sessions between a group of strategic consultants and academics.

4. The 3S's "Single Shot Strategy"

Many new conceptual models purport to capture the essence of strategy in a single word, concept, or theme.

Examples of 'single shot strategies' would be seen in an exclusive focus on:

- Reengineering
- Total quality management
- Time to market
- Target return on capital
- Six Sigma

A single shot strategy attempts to reduce the complex nature of strategy to an artificially narrow concept and, in the process, squeezes out the value of a more thorough approach.

In fact, not all of these single-shot prescriptions are as fresh as their purported creators would like us to think. Many of these buzzwords and standards are, to some extent, old wine in a new bottle. However, they can still lead to the generation of valuable initiatives.

They may contribute to significant improvements in manufacturing quality and overall business performance. But their application does not fulfill the full needs of a complete strategy.

Most single shot strategies are focused solely on changes in internal operations and do not address such essential strategic issues as competition or industrial evolution, thereby missing out on key elements of business risk and opportunity.

Nor does their content usually link to other aspects of a complete strategy program, such as visionary leadership. These narrow concepts may be worth considering in some cases, but only as a part of a larger and more complete strategic formulation.

5. The 8 Strategic Laws of Gravity

The origins of the 8 Strategic Laws of Gravity model stem from the diagnostic models and databases on corporate profitability which evolved in the 1970s and 1980s.

Driven by such pioneering concepts as experience curves, growth-share matrices, relative market share/return on sales frameworks and other approaches, the 8 Strategic Laws of Gravity model is more substantial and prescriptive than its predecessors.

This approach has allowed many business leaders to understand where the shortfalls lie in their own strategic efforts and to set out a more successful competitive strategy. The laws are:

- Correct business definition
- Market control and leadership
- The value of incremental share to the leader
- Relative competitive position, performance and investment
- Declining "experience curve" costs and prices
- Discouraging competitor investment
- Industry value chain and profit pool
- Organizational investment

Each of the eight Laws contained both a descriptive and prescriptive element.

Correct business definition - understanding the true borders of a business, now and in the future, is critical. As business definition evolves, strategy needs to follow, or even lead, the process of change.

Market control and leadership - when properly defined, a market-leading position can drive shareholder value to the highest possible level. Niche or scale leadership can each provide an avenue to superior financial performance.

The value of incremental share to the leader - incremental share gain can be of great value, reinforcing leadership, adding to profits, and building market power and influence.

Relative competitive position, performance and investment - historical analyses, from the early PIMS database to more modern studies of industrial economics, show that, in aggregate, relative share within a defined market usually determines relative financial return. An absolute revenue share of 30 percent in a market has enormously different strategic and financial characteristics if that share creates a strong leadership position as opposed to a weak trailing position.

Declining "experience curve" costs and prices - originally uncovered in the analysis of input, cost and time efficiencies in the production of military aircraft during the Second World War, the predictable decline in real unit costs and prices with accumulated experience has proven to be a universal micro-economic truth. From pencils to computing power, this same phenomenon is consistently visible across industries, countries, businesses, and time. Although the roots of this insight are historical, understanding and managing it continue to be critical elements of successful modern strategy.

Discouraging competitor investment - strategic cost management, marketing, capital investment, service excellence, brand and channel power, customer management and technological application, can discourage competitors from entry into a firm's most profitable market segments. The cost of dissuasion is usually far lower than the cost of intensified competition over the long term.

The industry value chain and profit pool - mapping out the location and sum of profits across an industry or along a business value chain, is a critical element of effective strategy. Originally articulated in the Harvard Business Review by Bain & Company, the profit pool has already become a core concept in modern strategy.

Organizational investment - all of the preceding laws of gravity can best be pursued through superior capabilities, more effective organizational structures, and more efficient operating systems. Failure to invest in, and compensate, individuals and teams for profitable growth, effective operation, and motivation of colleagues, ensures under-performance in this critical area of potential strategic value.

6. The 9S's Model

The Japanese strategic consultant, Shintaro Hori, added two extensions to the 7S's model: Steering Pattern and Syndication.

- Strategy
- Structure
- Systems
- Style
- Staff
- Skills
- Shared Values

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- Steering Pattern
- Syndication

Derived from Hori's observations of failed multinational strategies in Japan, the Steering Pattern adds a new dimension to the systems and shared values of an organization. It reflects the universal need to develop and implement a consistent model of leadership and operating culture which communicates how leadership expects results to be achieved at all levels of an organization and across all locations.

Syndication captures a whole wave of change and the potential for creative alliances across old business borders. Syndication parcels out risk to more than one company, redefining the value chain and creatively combining and recombining business assets and processes.

Modern companies are constantly searching for new avenues to create competitive advantage, reduce costs, improve return on capital, and share risk burdens where individual scale will not allow any one company to shoulder the entire responsibility for a significant operation or investment.

Adding syndication to the classic 7S's model captures this new area of shared initiatives, which did not fit neatly into pre-existing categories of structure or systems.

7. The 7C's Model

The 7C's model of strategy is an enhanced version of the 3C's model of business definition, expanding the list of elements to create a more precise definitional model and a more useable set of strategic building blocks. The 7C's model is addressed more fully in Element 13.

In summary, the 7C's are:

- Costs
- Customers
- Competitors

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- Context (market and regulations)
- Capabilities
- Channels
- Capital

Each of these elements can play a key role in diagnosing the current situation of a business but can also provide a checklist of elements of strategy to ensure all seven areas of competitive advantage are addressed.

The 7S's have provided a more comprehensive framework for strategy than many other models. While somewhat vague in providing specific direction, the components of this model can serve as a useful checklist in a more thorough and precise strategy program.

Perhaps because of its general nature and broad conceptual coverage, the framework has not been able to generate a consistently better set of competitive results for many who have attempted to use it in the definition and implementation of a winning strategy.

1. Strategy

The coherent decisions and actions taken to create relative advantage against competitors and improved relations with customers. Resource allocation is a key part of this process.

2. Structure

The organizational structure and operating approach that clarify tasks, responsibilities, and roles in the corporate hierarchy.

3. Systems

The procedures, processes, and flows of activity that allow an organization to operate daily.

4. Staff

The people who make up the organization, individually and collectively.

5. Skills

The capacities and capabilities of an organization and its ability to get things done.

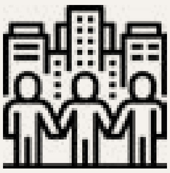
6. Style

The behavior of the leadership, and therefore usually also of the body of an organization. An organization's style or culture frames the way it acts under different circumstances.

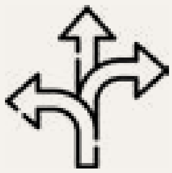
7. Shared Values

The mix of explicit and implied values and goals. Not confined to mission or value statements, shared values are internalized in a business and guide its behavior.

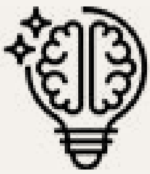
In order to respond properly to new challenges, and build the most robust model for the future, it is necessary to identify and address seven missing elements of traditional strategic models:



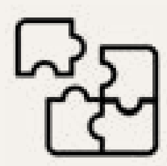
1 Comprehensive Nature



2 Flexibility

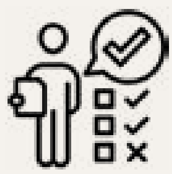


3 Creativity



4 Integration

5 Motivation



6 Responsibility

7 Effectiveness

1. Comprehensive Nature of Change Required for Effective Strategy

The complexity and pressures placed on businesses have reshaped the process and content of successful strategy.

Priorities need to be more clearly articulated in a world of seemingly unending choice. Real, tangible, and sustainable differentiation is essential in an ever more crowded competitive arena. Strategic planning cycles and response times need to be shorter. Manpower allocation needs to be addressed as a matter of the highest priority. Corporate consolidation continues apace.

The organizations of tomorrow may well have fewer, more skilled people in a more technologically enabled paradigm. Yet, at the same time, a broader set of individuals within the organization, and perhaps even a broader set of organizations, may need to be involved in the process of setting and implementing strategy.

New and more effective measures of success need to be established. New organizational models that cut across or break down established hierarchies need to be tested and adopted where appropriate to pursue a new vision or respond to an unprecedented set of challenges and imperatives.

2. Flexibility Demanded by a Rapidly Changing Environment

While it is important to pursue a path of high quality, structured analysis and inclusive procedures, it is also essential to avoid prescribing every detail of a strategy.

Creativity, flexibility, and success often go hand in hand. There needs to be room for adjustment in your strategy, and enough flexibility in your approach to respond to unexpected external and internal events and actions. Strategies are like living things and need to be able to adapt to survive and prosper.

3. Creativity Essential for Maximum Advantage

Creative breakthrough thinking needs to be encouraged throughout the strategy process.

Leadership needs to be more inspirational, and leaders need to encourage individuals to give their very best, even if that means challenging deeply held beliefs and changing long-established practices.

Analysis, data and priorities need to be set and maintained, but space also needs to be created for innovation, adaptation, evolution, and rejuvenation of supportive activities. Inspirational and creative processes can turbo-charge performance when new risks emerge, or as new opportunities arise for positive change.

No renaissance is built on a foundation of worn-out ideas True results can only be achieved with a new approach to strategy and an open mind to the real potential for creative and productive change in a constantly evolving business paradigm.

4. Necessary Integration of Process and Content

Perhaps one of the most important reasons that the traditional tools of strategy have lost their cutting edge is that management too often severs process and content. By reintegrating the two in a better approach to strategy, managers will be able to overcome many of the limitations of the past.

The output of good strategy leads to positive individual actions, aligned behind a single, shared vision, fully supporting the agreed strategic plan. This outcome, only possible through an approach which integrates process and content, can add enormously to the force and spirit for profitable change across an entire business.

5. Missing Motivation - The Necessary Human Dimension to Strategy

Another weakness in past models of strategy has been the insufficient attention paid to the human aspects of a business.

By neglecting the aspirational and motivational elements that lie at the heart of every business, many strategies failed to create the energy for change which could make all the difference in a world of intense competition.

Only strategies that take into account this necessary human dimension will be able to realize their full potential. Investing to imbue a sense of individual purpose and accomplishment is an essential element of strategy.

Understanding the true beliefs, attitudes, aspirations and capabilities of colleagues, and responding properly, may be the most positive contribution a leader can make to a business.

6. Responsibility Not Integrated into Core Strategy

Failure to build corporate social responsibility into a core strategy can be a costly mistake, and unnecessary risks can ripen into environmental, legal, or reputational catastrophes.

Less responsible corporate brands and business systems will forfeit revenues, which a more esteemed enterprise would attract. A reputation as an uncaring company can even repel some of the most promising young employees.

Forward-thinking strategies integrate responsibility with cutting edge competitive strategy: maximizing profits and creating advantage while operating in a manner which is sensitive to the environment, the workplace, and the communities in which businesses operate. This model embeds these values within the core strategies and operating principles of a business.

More enlightened managers will extend the notion of responsibility across their full business system, encouraging suppliers, partners and even customers to operate with a more responsible and engaged approach to business.

A key element for the future, corporate social responsibility is examined in more detail in Book One: Part II. Responsibility and Engagement of this coursebook.

7. Unacceptable Results from Ineffective Strategies

Finally, and most importantly, a rethink of strategy may be needed because the application of an older generation of models has failed to create differentiated performance in the real world.

Implementation may lag behind plans which were never truly executable in the first place. Perhaps the lack of many success stories is enough to make us question the foundations of our historic approaches to business strategy.

Strategy is a dynamic and evolving discipline. If we look honestly at how well we have performed relative to internal milestones and external best-in-class benchmarks, we may have to recognize that results have not been acceptable, and a rethink is necessary to end up in a better place.

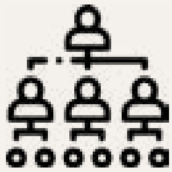
Only by viewing the past clearly and critically can we chart a way forward to the best possible future.

One of the greatest failings in traditional models is a lack of investment in addressing the process of strategy before setting out on the journey.

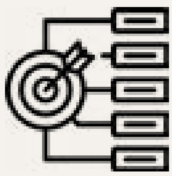
A great American legal mind once stated that "good process makes good law". The same is true regarding strategy. By articulating and overseeing a good process, you are far more likely to achieve the best possible results.

The approach to a better process may include seven separate steps:

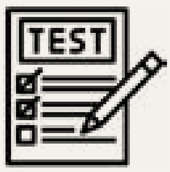
1 Ensure an Effective Process



2 Ensure an Inclusive Process



3 Set Long-term Objectives



4 Test The Logic and the Process

5 Balance Planning with Flexibility

6 Search for Creativity

7 Embrace Risk

1. Ensure an Effective Process

Many strategic planning processes are efficient rather than effective. Timetables are brisk. Review sessions are short. Feedback is focused. The process is repetitive, mechanical, and uninspiring.

While useful in part, the linear and nonlinear character of strategy may require further discussion from fresh perspectives and more challenge on the underlying approach than these past processes may allow.

An effective process may take longer and may absorb more scarce resources up front. But the payback will be much faster and greater.

2. Ensure an Inclusive Process - Break Down the Hierarchy

One proven way to increase the creative output of a high-quality organization is to break down line and staff barriers in the strategy process. A combined team of finance, marketing, and line management may be far more effective than a purely marketing-led view of the competition. Creative teaming can also break down external and internal walls. Involving suppliers and customers may elicit win–win opportunities and new sources of competitive advantage. One study even showed that 70% of corporate learning takes place at the customer interface.

Strategies can benefit enormously from the informed perspectives of other players in the value chain. Entire books have been written on the value of including customers in strategy formulation. Suppliers, as well, can produce good ideas, align economic activities, and negotiate the most appropriate trade terms. And, with the greatest degree of caution, selected competitors may also cooperate in clearly defined areas of potential collaborations, a trend which has spawned the new word “comperation”, a challenging new synthesis of the traditionally antagonistic concepts of competition and cooperation.

3. Set Long-term Objectives for Individuals and the Group

Gaining a deeper understanding of your business enterprise and the current challenges it faces will require setting objectives for actions which have immediate results. A full view of strategy may also require objectives to be set which will only show benefits over a much longer time frame.

Multi-year action plans and targets may be required for major initiatives, for individual and group development plans, and for organizational evolution.

Longer term objectives could include revenue and profit targets, new product and market initiatives, improvements in departmental satisfaction scores, new systems implementation, team skills development, hiring targets, and individual skills development programs.

Consolidation and communication of these objectives provides one of the most valuable opportunities for senior managers to engage, direct, and motivate their colleagues.

4. Test the Logic and the Process

Good strategy can be characterized as 'an inexorable flow of logic from insight to action': a seamless web of facts, principles and decisions that allow an organization to reach its goals and generate extraordinary returns.

In order to ensure that your strategy is indeed world class, all aspects of strategic logic should be tested, cross-examined, and challenged. Where necessary, change should be made as early as possible.

5. Balance Strategic Planning with Strategic Flexibility

Strategy today can be more like a sweaty wrestling match than an elegant ballet choreographed in advance. Modern approaches may require as much responsive action as initiatives planned out in advance.

Professor Moshe Rubinstein described the need of modern strategy to be "half planned and half unplanned", executing on well thought through initiatives, but always ready to respond to unexpected risks and opportunities as and when they arise.

The final content of the strategic document should be architectural rather than exhaustive. It should describe the vision, principles, goals and outline plans for action. The plumbing, engineering and detailed plans may need to be developed and implemented flexibly over time.

6. Search for Nonlinearity and Creative Breakthroughs

World class strategy maximizes the benefits of past experience and learning, as well as preparing an organization for the future, and the unexpected.

The environment will always produce surprises, and those surprises may require strategic change or redirection.

Good strategies will benefit from fast response to change and may even deliberately create and exploit discontinuity for their own advantage. By understanding the multi-dimensional and interdependent nature of events and business systems, talented management teams will be able to profit from the opportunities inherent in any turbulent period.

Business discontinuities – think digital photography, hybrid vehicles, clean energy, etc – do not spring upon us fully developed from one day to the next. Analysis has shown that many market-shaking discontinuities are clearly visible 5-10 years before they start to have a major impact on their market and the competitors within it.

Winners in the modern business paradigm are able to profit from discontinuous change as and when it occurs, and certainly when it is deliberately caused.

7. Embrace Risk, Action, and the Acceptance of Failure

Not all efforts will succeed, but without risk, trial, and some failure there can be little progress. We must be willing to act, to test and expand the boundaries of what we know, and to accept and add risk and failure to that store of knowledge.

The only way we really learn is through action and experience, both good and bad. In fact, it is perhaps only through our worst experiences that we gain the most knowledge.

By acting with more courage and creativity, managers can test ever more aggressively the borders of the possible and can magnify the value of their potential success.

There are three integrated phases of a full strategy program - diagnosis, design and implementation. Only by following all three on a fully coordinated basis can a strategy be based on facts, be designed for full and successful implementation, and create lasting and tangible benefits for all stakeholders.

The purpose of the diagnosis phase is to clarify all facts related to the historical and current business environment, observe and understand the trends and influences on the future, and spell out precisely the options available to the management or ownership team.

Only when this phase is concluded, can the design and implementation planning phases begin. The steps within the first diagnostic phase can be set out as follows:

1. Point of Departure

The first step in a strategy diagnostic is to prepare an analytical summary of the current state of the business in absolute terms and relative to competitors.

This point of departure summary will include company history, business definition, an overview of customers, markets, and sources of profitability. It will address historical and current financial results, strategic balance sheet and organizational issues.

2. Portfolio and Profit Perspective

Clear strategies require a fresh look at the collection of businesses being pursued and the value of the entire portfolio as a system as well as a collection of individual business units.

The era of businesses attempting to be all things to all people in all places at all times is well and truly over.

Assessing competitiveness by analyzing both business unit and business process portfolios is essential to provide an internal and external view of the business system:

Business unit portfolio: This looks at the relative strength and performance of each business unit.

One logical outcome from this perspective is a restructuring of the portfolio of businesses to focus resources only on those selected strategic business units (SBUs) that can create the highest economic value for stakeholders.

By eliminating low yield activities, adding to profitable businesses, and focusing investment, a senior management team can lift the performance of a collection of businesses to a much higher level.

Business process portfolio: Restructuring an internal portfolio of activities can also lead to a more efficient business model. Analysis can lead to spinning off processes, outsourcing, combining entities, insourcing, re-engineering, and pursuing corporate transformation programs.

3. Profit Pool Perspective

It is no longer enough to analyze only the traditional internal view of profits earned by a business in a modern industry. All sources of current and potential profit - taking into account both external and internal profit pool perspectives - need to be analyzed, understood and acted upon.

The external profit pool: This requires documenting and analyzing the total pool of profits along the whole value chain from raw material suppliers through to end customers, incorporating all relevant products and services along the way.

The internal profit pool: This will require documenting and analyzing the true sources of profitability within the current and future business model.

For example, many automotive and component companies, appliance manufacturers and electronic goods retailers now make far more money in services, warranties and finance fees than on new product sales.

4. Competitive Perspective

One of the most common failings of modern corporate strategists is to under-invest in an understanding of competitors. By fully analyzing competitors, opportunities to learn from - and to exploit - their strengths and weaknesses can emerge. Two particular areas to address include:

Competitor SWOT: strategists must think through the complete competitor perspective - strengths, weaknesses, opportunities and threats - and attack the weak points in the strategy of selected competitors in a focused and effective manner, while defending what really counts in their own business.

Standards of operating excellence: by benchmarking leading competitors' achievements to reset higher standards for your own business, and by defining target contra-actions, managers will be far more able to implement their own strategies successfully.

5. Business Dynamics

Every business sits amid a constant flow of internal and external events and systems which affect its performance and influence its activities.

An ability to see the future more clearly than your competitors is one of your most powerful weapons; allowing you to spot and exploit profitable opportunities and anticipate future risks by effective action.

By mastering the flow of the dynamic elements of your business "eco-system", you will be able to stay on top of business challenges now and in the future.

6. Organizational Assessment

Making a tough and honest assessment of your organization – the structure, culture and people within it - is one of the most valuable and most difficult aspects of strategy.

Acting early to address issues can have enormous long-term benefit. A thorough, data-driven assessment should include structure, operating principles, collective capabilities, values summary, culture diagnostic, satisfaction/style profile, and a framework to manage individual performance and capability.

7. Range and Evaluation of Strategic Options

At the end of the diagnostic phase, the full range of real strategic options should be set out, based on the preceding analytical steps.

While there are an infinite number of permutations, clear thought can usually group actions under a few coherent strategic options, which may include reduction to a smaller core of businesses, investing for rapid organic growth, merger or acquisition, adding international markets or diversification.

Strategic options should usually be confined to six or fewer through a process of discussion and evaluation. In the process, some actions can be reallocated from one option to another, and labels rewritten to reflect progress in understanding.

This stage involves valuing the range of options specified at the end of the diagnostic phase and spelling out the pros and cons of each. Although there are many potential options, most real options can be captured in a limited set of choices.

Options should include sale, which is always an option, status quo (which is infrequently chosen), and a focused set of intermediate options with ascending degrees of change, perceived risk and return.

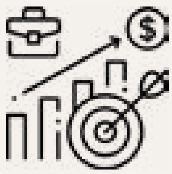
By allocating actions and initiatives to clearly labelled options, the senior team will be more capable of understanding and debating the relative merits of each of the options proposed.

After selecting a single option, the senior team should ensure that it will indeed lead to the achievement of The Promise set out below.

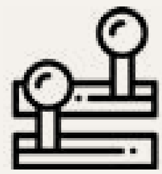
Current Proven Approach: Three Phases of Strategy | Element 7: Design Phase

Based upon the facts and observations gleaned in the diagnostic phase, the design phase will draw together all elements of your strategy into a single coherent approach, leading seamlessly to implementation.

In order to be as powerful and effective as it possibly can, the design phase must be carried out with one eye on the lessons of the past and another on the demands of the future:

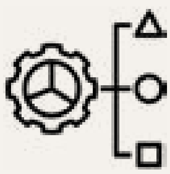


1 The Promise: Vision, Mission and Values

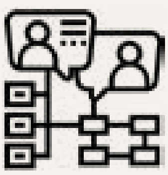


2 Key Levers on Performance and Value

3 Creativity and Innovation



4 Priorities and Resource Allocation



5 New Organizational Approach

6 Risk Management

7 Target Results

1. The Promise: Vision, Mission and Values

Going beyond the traditional, and possibly over-used, label of 'vision statement', The Promise carries with it a greater sense of commitment and a more personal depth of feeling. By making The Promise, there is an opportunity for business leaders to address a broader set of challenges to reach the heart and soul of an enterprise and the people within it.

The Promise is perhaps the most important element in any strategy as it sets the overarching goal that will unite and motivate employees behind a common purpose, guide investment decisions, and inspire shareholders?

There are four key elements of The Promise: a clear vision, a detailed mission statement, a commitment to values, and a program of engagement and responsibility.

2. Key Levers on Performance and Value

Within each industry, there is a limited set of high impact 'levers' that can lift business performance most efficiently and effectively. These levers can include high market share, low-cost position, superior product quality and service, effective customer segmentation and other elements.

Once the key levers have been identified, the task is to define how they can best be applied to create the greatest positive impact for your organization. The resulting imperatives will serve as a bridge between the vision and specific priorities, targets and investments.

3. Creativity and Innovation

In exercising our individual – and team's – most creative capacities, there is a broad array of proven approaches which can lead to a deeper engagement with the individuals concerned, and the generation of a more creative set of options and potential activities to assess.

The best way to release those capabilities will vary based upon the individuals concerned and the culture of the organization in which the strategic initiative is being pursued. Often it is useful to engage external resources that can help to break away from the proven pathways of the past and look at doing things differently in the future.

It may also be useful to get away from familiar settings and their association with past and present ways of thinking. Creativity requires us to look afresh at old situations and see existing paradigms, practices and patterns of behavior differently.

This fresh perspective on the past can surface new insights and bring forth new opportunities for the future, a process which may work best in the context of a new, open and supportive environment. The discussion also needs to include views that are externally focused, bringing an objective perspective to understand the failed efforts and successful approaches taken by others within and outside your own business areas of competition.

This will allow you to see, and act upon, the potential for disruptive practices and the application of new technologies that can change the future paradigm, thus creating valuable new opportunities for competitive advantage and economic value creation.

4. Priorities and Resource Allocation

The best approach to achieving an actionable set of priorities needs to be worked through, step by step.

First, make a comprehensive list of potential priorities which focus on the levers of performance and value.

Second, place each on a priority framework which plots the expected value of each initiative against the estimated difficulty to implement.

Third, select priorities, drawing a line between those initiatives which will be pursued and those which will not. Last, allocate resources.

A clearly defined set of priorities, and an equally clearly defined set of non-priorities, can guide resource allocation to those areas that will lead to the highest return on corporate and human capital.

5. New Organizational Approach

As businesses refocus on a limited set of priority actions, organizations must bring to bear their full capabilities in key areas, intensifying targeted efforts and operating more effectively on a coordinated global basis.

Organizational issues can be extremely complex and multi-faceted. In designing the best model to implement your strategy and to achieve operating targets, the leadership team may well need to proceed on many fronts at the same time: selecting the best model of organization, acting to improve capability, changing people as needed, addressing needs for culture change, and perhaps even implementing a values migration program across the entire organization.

There are three parts to organizational design: structure, staffing and operating principles. All three phases are essential to ensure that options can be implemented in a way that suits the culture and character of a company.

6. Risk Management

Every strategy carries with it a set of risks which require analysis and management. There is no such thing as a low risk/high return strategy in most industries - and the bolder the proposed change, the greater the risks involved.

Unbundling the elements of risk and opportunity will result in a more scientific definition which allows management teams to know where resources can best be deployed to reduce risk and exploit opportunity.

Business risks can broadly be broken down into three categories: financial, operating and contextual. A far-sighted team will have a specific plan of action in all of these areas.

7. Target Results

Successful strategies can only be driven by managers with a clear set of targets indicating the performance required to implement the chosen strategy. These targets must be ambitious, credible, and fully aligned with agreed strategy.

Target results to measure success or failure include quantified measures for the key levers as described above, financial results, cash flow, strategic balance sheet, and future impact of strategic initiatives on competitive and market position.

In the spirit of focusing on priorities and investing differentially in a select set of levers on performance and value, it is useful to confirm that there is at least one target result for each lever and priority identified.

Current Proven Approach: Three Phases of Strategy | Element 8: Implementation Phase

Immediately upon concluding the design phase, implementation planning needs to begin. In the previous two phases the priority imperatives and actions needed to make your strategy a reality should have become clear and well documented.

The bridge between thought and action is one of the most important characteristics of the overall strategy process. The implementation planning phase addresses the actions, team and resources necessary to implement the strategy. This phase forms the strategic dashboard necessary to monitor progress, corrective management and an effective approach to leadership and communication.

The implementation plan should be a natural consequence of strategic design, the culmination of that inexorable flow of logic from insight to focused action in the market.

1. Imperatives, Actions, Responsibilities

By stating the required imperatives and actions to realize your vision and then allocating specific responsibility to each, you will be able to link the diagnosis, design and implementation phases of your strategy.

There are three components to this first step of the implementation phase: a summary of all imperatives; an allocation of individual responsibility; and a high-level schedule of implementation taking into account all relevant factors.

Ensuring that each executive has signed up to his or her responsibilities and has agreed implementation deadlines should conclude the first step in a successful phase of implementation.

2. Tactics and Timetable

Each proposed initiative or action can be pursued through a wide range of tactical approaches. Choosing the best approach will have a major bearing on the success of the entire strategy. Poorly chosen tactics, ranging from team leadership choices to incorrect timing, to insufficient allocation of resource, to failure to plan for contingencies, can reduce the effectiveness of the investment, or even lead to total strategic failure. Element 18 expands on the constituent elements of tactics.

Of all tactical elements, timing may be the most important. Only by considering all aspects of an initiative can the most advantageous timetable be set out.

3. Implementation Team

Some strategy exercises will require the constitution of a separate project team dedicated to the diagnosis, design, and implementation of the strategic plans. Others will require staff to reallocate time to accommodate strategy-related activities.

Because good strategy is holistic, the team's approach should be cross-functional, including members with varying backgrounds, jobs and expertise.

Where there are resource gaps, insufficient skills or a limited timeframe, a specific program of resource acquisition will be required.

4. Alignment and Integration

It is essential to align all aspects of the strategic business system. To implement the chosen strategies requires that all barriers and inconsistencies be removed, and all organizational forces applied in the same direction. All too often, ambitious visions fail to materialize because there are insufficient or inadequate resources deployed, conflicting initiatives, or missing elements of organizational integration necessary to implement the supporting strategies.

The integration process will need to review the top-down and bottom-up perspectives repeatedly and in ever finer detail. The same detailed view will be needed to confirm that all wrinkles are ironed out and all opportunities for synergies fully exploited.

5. Program Control

One of the reasons many businesses do not achieve the visionary ambitions of their leaders is that feedback systems, usually in the form of management information, are incomplete or "tuned in to the wrong station".

Too often there is both a data overload and an insufficient amount of useable information. To ensure success, you will benefit from creating a custom-designed strategic dashboard which identifies and monitors progress against critical target results, timetables for specific actions, and expected outcomes from those actions.

Those initiatives which are significantly off-track or repeatedly failing to meet deadlines will require the attention of senior management and the appropriate corrective action taken: resources can be reallocated, sanctions for underperformance meted out, or a better approach agreed, and new objectives and deadlines set.

6. Full Value Capture

Full value capture is one of the most important and least understood steps in maximizing the value of strategy. Many strategies, even when well designed and executed, fail to yield maximum benefit due simply to a lack of explicit effort to capture their full value.

External benefits may be lost simply because the full value of the strategic advances in capital markets, with customers, or with suppliers is not captured. Internal value is lost when valuable learning is not captured, best practices not documented and organizational heroics not sufficiently rewarded.

There are at least seven sources of potential value that can be enhanced or realized through a comprehensive value screen: content, customer, capability, capital, future option, contingent, and full potential value.

7. Leadership and Motivation

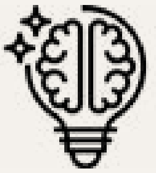
Effective leadership will require the full complement of leadership skills, setting an example of dedication, demonstrating proper values, communicating effectively, setting targets, working with internal and external constituencies, and providing central guidance to the overall process.

Strategy programs require both visible leadership - action-oriented leadership from the front - and supportive leadership from behind the scenes to ensure the best outcome.

The highest performance for an organization is only possible if the hearts and minds of the individuals within it are fully captured by the vision, the strategy, the plan of action, and the leader of the strategy exercise. These elements will be described in greater detail in Elements 24-27 of this book.

The content of your strategy program must be captured accurately, and in a manner which will allow easy communication throughout your organization. Failure to do so can significantly reduce its value.

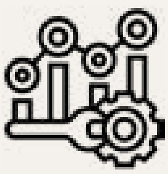
Listed below are some of the key reasons why the ability to document a strategy clearly and succinctly is vital to your strategy process:



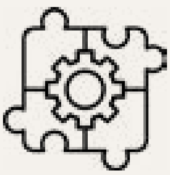
1 Inspiration and Creativity

2 Quality of Thought

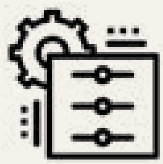
3 Communication



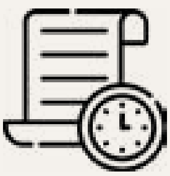
4 Refinement



5 Integration



6 Alignment



7 Future History

1. Inspiration and Creativity

The creative process is greatly enhanced by the careful selection of words used to define, with precision, what the strategy is about. Ideas beget ideas. Words inspire thought. By defining the way forward in writing, new elements will emerge which can enhance the ultimate value of the chosen strategy.

2. Quality of Thought

Writing down the strategy inspires thought, insight, and focus. Conflicts and gaps in thinking and proposed action are exposed. The quality of thought is improved.

3. Communication

A written document is essential to communicate your strategy throughout the organization. Its content can be refined through feedback, necessary buy-in and approval can be achieved, and a shared sense of common purpose can be developed.

The quality of organizational alignment depends in great measure on the clarity and communication of the vision and supporting strategy throughout all parts of the element.

4. Refinement

No strategy is born perfect. Documentation will provide a canvas for the filtering, processing and elimination of unwanted elements to refine strategy output and produce the highest quality result.

5. Integration

Marketing, design, production, procurement, service, sales, and all other business aspects need to be brought together into one coherent plan to work well. Comprehensive documentation of a complete strategy allows the integration of all supplementary plans to take place more efficiently and effortlessly.

6. Alignment

A cogent, crisp, and concise written summary of your strategy provides the foundation for aligning group and individual objectives.

Strategies are relevant for all members of an organization, but not everyone can join directly in the process steps of diagnosis, design, and implementation. For those colleagues who are not part of the core team, or who may have joined a business after the completion of the strategy exercise, the opportunity to access a cogent summary of the strategy can be invaluable in ensuring their own actions are fully in line with group direction.

7. Future Reference

Careful documentation will provide future generations of strategy managers with a reference point to help understand the past and assess the success or failure of initiatives undertaken.

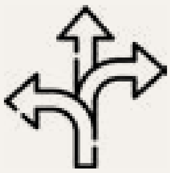
Confidentiality: A note of caution

Once a strategy has been documented, it is essential to protect its confidentiality. Leaks can be very expensive indeed.

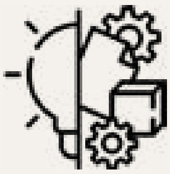
A tough document management policy will be needed to ensure that content value is not diminished or lost altogether by careless or deliberately inappropriate disclosures.

When compared to past models of strategy, the approach described in this book proceeds in a different manner along seven critical dimensions, as listed below:

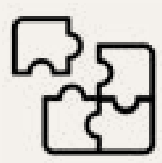
1 More Comprehensive



2 More Flexible



3 More Creative



4 More Integrating

5. More Motivating

6 More Responsible

7 More Effective

1. More Comprehensive: Integrating Process and Content

The first step in building a better approach to strategy is the fusion of process and content.

In getting better results from your business, how you go about setting and implementing your strategy can be as important as the specific structure of your plans.

By excluding key members of your enterprise from the process, you may be both demotivating those who most need to be motivated and also, through their exclusion, missing out on key sources of valuable information and potential competitive advantage.

Diagnosis, design, implementation, skill development, resource allocation, leadership and motivation need to be integrated into one indivisible whole. Vision, strategy, and tactics need to be reviewed, coordinated, integrated, and aligned in a unified approach to achieve full potential in the real world.

2. More Flexible: Better Adapted to Accelerating Change

The business landscape is littered with the carcasses of dinosaurs unable to adapt to a new world of rapid change. Linear change is faster. Nonlinear shifts appear abruptly and unexpectedly. Longstanding borders on business and business definitions collapse or erode quickly. Customers and suppliers can become competitors or close collaborators in future strategy. Competitors can become allies or even colleagues in new business paradigms.

Strategy in the business world, as in the natural world, is all about pursuing the best approach to winning the brutal competition for survival and prosperity or facing inevitable extinction in a remorseless world of natural selection. It is instructive to note that Charles Darwin did not say that only the strongest survive. Darwin actually said, more accurately, that those species which were best adapted to changes in the environment were the most likely to survive.

3. More Integrative: Incorporating Multiple Perspectives

In a complex and dynamic world, multiple perspectives are necessary to understand the full meaning and impact of events taking place within and around an organization. No one person, team, or department will have a monopoly on valuable information or insight into any of the three phases of a full strategy approach.

Contributions from more people, embracing diverse sources of perspective and experience, need to be gathered and reviewed to create full understanding.

Only through a thoughtful integration of a sufficiently large set of differing perspectives can a full set of strategic objectives be met.

4. More Creative: Breaking Old Ways of Thinking

Good strategy requires managers to nurture, value, and manage intuition and creativity as never before. Experimentation must be encouraged, and acceptable levels of failure tolerated. No one ever made great scientific breakthroughs by a system of pure trial and success.

Destroying old models and rejecting well-established practices is never easy. Organizational and staff changes are some of the most difficult decisions to take and to implement in any business environment. Yet without the courage to discard the old, we can never move forward fully into the new.

5. More Motivating: Inspiring as well as Guiding Individuals

The old model of an hour's pay for an hour's labor is no longer enough to retain employees or inspire them to achieve their full potential.

The same is true at a higher level as engagement in a program of change needs to be presented and pursued in a new and different way. Individuals and entire organizations need to be more fully engaged and better motivated to rise to meet the challenge of world class strategy.

A fuller engagement and motivation of key individuals can trigger a quantum leap in the energy available for change, creating competitive advantage and inspiring greater collective performance.

Great leaders in the new business paradigm will go beyond simple resource allocation, the bedrock notion of traditional strategy and, through inspiration, create a whole new level of resource for change in the energy of their people and their organizations.

6. More Responsible: Integrating Strategy and Responsibility

By moving faster than the competition in developing responsible strategies, leaders can position their businesses and their brands as more customer and community friendly than their rivals.

Forward thinking leaders can reap the benefits of being an admired and welcome corporate citizen, resident, or guest in all the countries where they chose to operate. They will also benefit by participating at an early stage in the emergence of a more thoughtful model of engagement and responsibility where positive images and actions can now be developed, and seen to be developed, at relatively lower cost than in a more crowded future.

A more responsible business stance can improve relations with customers, suppliers, legislators, and regulators. Perhaps most importantly, a proactive approach to responsibility can present opportunities to inspire greater personal engagement and commitment of employees and other stakeholders in your business system.

Leading a company with a conscience and an eye to a healthy bottom line can create very real value for current - and future - stakeholders.

7. More Effective: Ensuring Implementation to Achieve Tangible Results

Strategies are useful only if they create tangible value in the real world.

The full measure of a new approach to strategy is whether it is more effective than its predecessors, whether the results are better than before, and whether the investments to achieve these results are justified by the return.

Satisfactory under- performance - longstanding practices or standards which have become accepted over time but are, in fact, unacceptable if looked at afresh - must be unveiled in all its forms and addressed directly by effective actions leading to far better results.

Strategies need to be designed for execution. Theories are valuable only when they lead to specific and measurable action. Strategies that are not implemented have little value to any stakeholder - owners, partners, suppliers, distributors, and employees alike.

Indeed, strategies that are not implemented may well carry significant negative value. They carry a high opportunity cost on the management time invested, alienate the most capable employees, add to organizational cynicism and loss of faith in leadership, and lead to many lost opportunities in the market- place. They may even leave behind potentially profitable customers in their unfortunate wake.

Good strategy and effective action go hand in hand.

Across all phases of strategy, and embedded in each, creativity is an essential part of any winning strategy.

In a world where all competitors have equal access to global low-cost manufacturing operations, to state-of-the-art technologies and to greater competitive information than ever before, individuals and collective creativity may be the greatest source of competitive advantage.

It is therefore appropriate to consider how to best grow and protect creativity within the entire organization:

1 Brainstorm

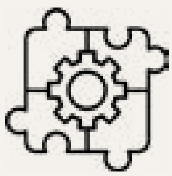
2 Change the People Involved

3 Explore New Angles

4 Avoid Insularity

5 Meditate

6 Look for Patterns



7 Integrate

1. Brainstorm - Draw on the Power of the Group

Often, the best ideas are sparked by interaction between individuals in a group setting. Great ideas can come from great people at all levels of the organization. Attempting to confine the process of strategy-setting or isolate creative individuals may well limit the creative potential of the whole. Group brainstorming may generate many good ideas, among them perhaps a few which will truly make a fundamental improvement in your business results.

It is thus important to broaden participation sufficiently and to allocate sufficient unstructured time to brainstorm during or between strategy exercises.

2. Change the People Involved

As so much of creativity is about drawing from a set of differing personal experiences, changing the constitution of the group from time to time can be extremely useful in stimulating new ideas.

New members of a strategic review group can come from within your business or can be hired in from the outside on a full-time basis. Alternatively, contracted resources can be brought in to assist in the strategic process on a focused basis and then released, without incurring the high costs of hiring and integrating a new staff member.

3. Explore New Angles - Think from a Competitor's Perspective

During one the largest takeover battles in UK history, a far- sighted CFO appointed one of his cleverest assistants to step down from his daily job and act throughout the contested bid as the opposing bidder would act. He was tasked with thinking through the potential strategies, tactics, pricing limits, and alliances of both companies from an entirely different perspective.

The colleague's performance was so effective that the CFO, following a hard-fought victory, institutionalized the practice for future takeover initiatives. This same approach could be equally valuable in a non-transactional situation as well, providing a whole new look at the business and its potential from a different perspective.

4. Avoid Insularity - Extract Lessons from Parallel Industries and Other Areas

It would be a folly to assume that there is only one insight, model, or approach that can lead to creative understanding or improved results. Nor is there any best approach which can be fixed in time.

There is always an element of change, of adaptation to the unknown and the unexpected. It is essential always to leave an open space in the thought process to allow applicable new information to come forward and for further inspiration to flourish as the circle of knowledge grows.

Albert Einstein once said that problems cannot be solved at the level where they arise. By taking a different perspective, we are far more likely to find solutions to even the most intractable of problems, no matter how, when and where they arise.

5. Meditate - Clear your Mind to Make Room for Innovative Ideas.

Most of the principles above are either directed at drawing on untapped sources of capability within a firm or tapping into external sources which can be effectively transferred across a business or industry boundary.

Other sources of creativity are more personal and require a different approach. Meditation, proven to stimulate thinking, reduce stress - which is endemic in most organizations - and improve health, may be the best of these alternative personal approaches.

By clearing your mind from the clutter of daily preoccupations, there is more space available for new insights, for an unhurried balancing of contending claims, for the discovery of new ideas and the arrival of fresh perspectives.

Uninterrupted, calm meditation, by any method, adds enormously to the potential for clear and creative strategic thought.

6. Look for Patterns - Understand Systemic Behavior

Much of creativity, as Senge describes in his book The Fifth Discipline, is about understanding and responding to systemic patterns of social or economic behavior.

In one memorable article in the Harvard Business Review, two experts in the observation and understanding of patterns of avian behavior exhibited in the natural world, were interviewed on the predictability and analytical approaches necessary to understand natural patterns as they emerged.

As the authors of *Spotting Patterns on the Fly* stated:

> *"... The ability to grasp complicated phenomena, and discern possible trends from seemingly random events, can be a source of competitive advantage, allowing managers to capitalize on opportunities before they are apparent to others."*

7. Integrate - Find New Connections in a Network Paradigm

The notion of integrating disparate disciplines harks back to a period where a few exceptional men were able to benefit from an approach and an attitude that transcended any one discipline or single point of view. In today's complex world, we all need to think and act like these Renaissance men and women to extract the full potential of a modern business.

By bringing together studies in science, the arts, culture, philosophy, religion, language, politics, history, and engineering, these men were able to open new vistas, to see new connections and to generate new insights and works of art that stand out as some of mankind's greatest achievements.

Modern management teams could well aspire to learn from how these men thought as well as what they thought.

Like success, creativity is a journey, not a destination. There is no end to the potential for improvement, growth, and greater reward.

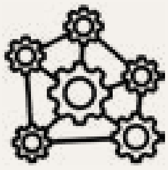
One of the reasons why traditional strategic models have failed to keep up with the pace of change in the business world is that most are, in essence, static snapshots of businesses which are in a constantly flowing process of change, redefinition and evolution. The old models simply do not work within this new and dynamic paradigm.

Business systems are neither static nor simple, and they can only be addressed on a more holistic and "living" basis. Strategy, reflecting this realization, is also becoming more fluid, more vital, and, in the end, far more capable of acting to profit from complexity and constant change.

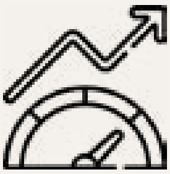
There are seven recurring influences in global, social and economic systems that can provide input for a more informed approach to strategic action. These trends combine to create an entirely new business paradigm, the mastering of which is an essential element in developing a winning strategy.

By understanding these trends and influences we can ensure that our businesses are the best adapted to changes in the environment - and more likely to survive and prosper in the new worlds of tomorrow:

1 Globalization

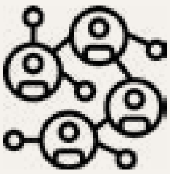


2 Complexity and Convergence

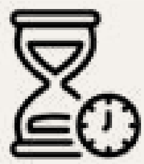


3 Acceleration

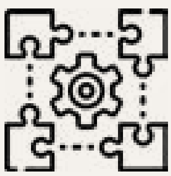
4 Turbulence



5 Connectivity



6 Ephemeralization



7 Consolidation

1. Globalization

Globalization redefines many of the major sources of business risk and opportunity today.

It is no longer just business entities that are "going global." images, data and information, products, capital, ideas, careers, families, friends, and almost anything else you can think of can now be transported with increasing speed and efficiency via delivery, distribution and communication systems that span the world.

The new principle of instantaneous globalization, perhaps the most commonly cited element in the evolution of complex modern businesses and economic systems, constantly creates new strategic challenges.

2. Complexity and Convergence

Modern business is rapidly getting more complex. Companies are multi-national and transnational. Product and service options proliferate. Logistics, technologies, and manufacturing systems flex and evolve globally. Competitors, suppliers, distributors, owners, and managers all operate amid perpetual change and growing complexity.

Perhaps the most effective response to complexity is to pursue a clear and compelling vision. Constant focus, up to date information, effective communications and uninterrupted effort can bring about constructive change in any complex dynamic system.

As businesses converge, they will look more alike and act more similarly. This paradigm principle is, as one wag put it, "as clear as the palm in your hand". The world of handheld devices reflects an underlying trend of technological and functional convergence.

As patterns and systems converge, the critical factor for management success is to develop a strategic response to profit from the end-state toward which the systems are converging and to benefit from opportunities created along the way.

3. Acceleration

Not only is change now constant, but the pace of change is also accelerating in almost every dimension.

The unprecedented pace of technological change accelerates overall change in an already rapidly evolving set of global economic systems. Even Moore's Law, which forecasts a doubling of processor power every 18 months, is already long out of date. Each doubling of power has now accelerated to a rate exceeding a 100 percent increase in capability every 12 months. This accelerating pace of change shows no sign of relenting.

Some changes are so profound that they do not just shift a business incrementally. They require discarding old models entirely, rethinking the business and adopting an entirely new approach for the future.

4. Turbulence

Turbulence in the business world occurs where there is dramatic change in the external environment or in the critical variables and functions of an internal system. It is characterized by rapid changes in the regulatory or competitive order, fundamental changes in business definition or dramatic changes in the nature of products, services, or distribution systems.

Out of turbulence come great opportunities for success. The winning formula in times of turbulence is driven by four key factors, all organizational:

- First, being externally focused and able to track and respond swiftly to changing events.
- Second, being fast and flexible in response.
- Third, being long term in outlook.
- And fourth, being constantly dissatisfied with the status quo and constantly searching for opportunities to improve future performance.

Organizations need to measure themselves accurately against these four winning characteristics and change how they operate when they fail to attain requisite standards of excellence.

5. Connectivity

The world is more interconnected and with greater rapidity and accuracy than ever before. This trend will continue.

The new state of interconnectedness has been neatly summarized by one of the leading experts and more eloquent spokesmen on the evolution of technology:

> *We're talking about connecting everything in the world to everything else. That means that every artifact that we make will be embedded with some chip, some little sliver of dim intelligence, maybe only as smart as a bee or an ant. But all of those pieces, some of them moving around and some stationary, will be connected, and will be communicating with each other. So, the graph of the number of things that we make, and the graph of the numbers of things that are connected, will in the near future converge and meet, and everything we make will be connected to everything else. And that is the network. That is the Net, in the large sense that we talk about.*

A corollary to connectivity and interconnectedness is interdependence.

From a commercial standpoint, realization of this more interconnected nature of the business world raises a whole new set of challenges. It is more essential than ever to understand and react to external trends and influences by developing future-oriented strategies.

6. Ephemeralization

Ephemeralization is the process of becoming less physical and more virtual in manifestation.

Expounded by R. Buckminster Fuller in the 1960s, this paradigm principle can be seen in system after system in the modern business world. For example, in modern telecommunications (with small, mobile, wireless handsets operating virtually instantaneously), finance (who goes into a branch for assisted cash withdrawals anymore?), retail (with online shopping) and computers (ever more portable and more powerful), many systems and connected networks have become less present, even as their functionality increased.

In this ephemeral world, it is essential to anticipate change, recognize future trends and invest to create the maximum competitive advantage.

7. Consolidation

In many businesses today there is a visible trend toward consolidation of formerly independent suppliers, competitors, and customers into larger unified blocks. This can be seen at national and international level as mergers and acquisitions combine ever-larger players into single units.

The automobile, pharmaceutical, energy, banking, insurance, telecommunications, steel, component, advertising, chemical, accounting, aircraft, defense and countless other industries are all on highly visible pathways to greater consolidation.

This trend may profoundly affect your business. You may have to consider participating in industry-defining mergers and acquisitions yourself or face the prospect of a future contending against bigger and more powerful rivals.

The organizational implications are also significant. In order to effect a successful merger or acquisition your team will need to develop the skills of acquiring and integrating other corporate entities.

As already stated in Element 2, the 7C's model can provide a powerful framework to define more precisely the borders of a business, evaluate core strategic options, and identify and prioritize adjacent growth opportunities.

• Costs • Customers • Competitors	+	• Context • Capabilities • Channels • Capital	+	• Results

The first three C's are described earlier in the 3C's model and operate here in a similar way.

- Costs
- Customers
- Competitors

Costs reflect the nature and proportion of economic activity within an organization.

Customers are the group whose needs are served by the entire business system of a company.

Competitors are the set of companies pursuing the same opportunities within a defined geographic or product market.

Context

The context of a business describes the overall architecture of a market and its broad environment including: regulatory structure, licensing regime, political influences, product/market combinations, technological environment, trade and quota arrangements, patent limitations, and other defining characteristics of the industrial environment.

Active management of these key elements of context is one of the biggest challenges in the creation of transnational business success. In some of the most dynamic and complex industries such as telecommunications, financial services and utilities, changes in the regulatory and other contextual elements are often a primary focus of senior management as they reshape the competitive landscape.

Capabilities

The capabilities of individuals and the organization are a critical source of incremental revenue, profits, and competitive advantage in both manufacturing and service businesses. Much of strategy is about identifying, improving and employing as effectively as possible the human and competitive capabilities resident in a business.

Channels

Channels - the systems of distribution through which businesses deliver products and services to their customers - increase in strategic significance as businesses develop.

The ability to access, share, dominate, or even to own these channels allows competitors both to control the customer and restructure the value chain by reducing the time and cost involved in value delivery.

The ability to bypass intermediaries and go directly to the market, shortening the distance between producer and customer, creates enormous advantage over trailing competitors encumbered with older, less flexible channel structures and systems.

In addition, channels and customers are often tightly linked, with new channels providing access to new customers, as well as reducing costs and improving service to an existing client base.

Capital

Capital advantage and a strategic approach to the capital base and balance sheet of an organization is an often-overlooked element of strategy. Too often, strategy is focused exclusively on the internal operations, external market, cash flow, and profit and loss account aspects of a business.

No longer seen as merely a source of funds at market prices, the effective management of capital has become a source of competitive advantage and creator of shareholder wealth if addressed properly.

Results

Results - the final test of strategy - need to be specifically included to tie all elements of the model to a meaningful end.

In this 7Cs + Results model, there is an explicit linking of a strategy model with results, causing strategists to be constantly mindful of practicality, the need to implement ideas, and the value of a process to assure the effectiveness of programs leading to strategic conclusions, recommendations and action.

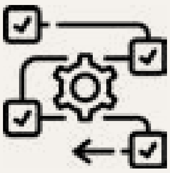
Beyond the 7C's

Other C's that have cropped up for potential inclusion in the expanding ocean of "C" concepts include Compensation, Core technologies, Communications, Compassion and Cooperation. Most of these are specific to an industry or competitive position. In order to get the best possible results, however, the application of C for creativity is worth considering at each and every part of the model.

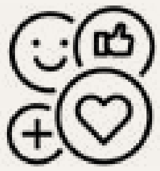
One of the greatest musical composers of all time, Igor Stravinsky, wrote a beautiful piece of music in 1913 entitled *"The Rites of Spring"* which captured the essence of birth and renewal of a new season.

Similarly, the "Rights" of Strategy can signal a fresh beginning for your own business.

While developing your own strategy program, it is essential to ensure that your organization is fully in line with these seven "rights" which can help you to navigate to a more successful strategic future:

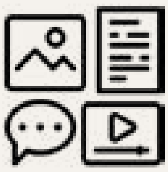


1 Right Process

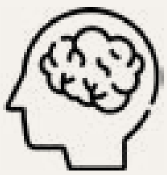


2 Right Attitude

3 Right People

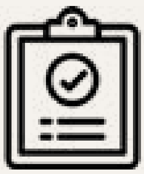


4 Right Content



5. Right Thought

6 Right Creativity



7 Right Results

1. Right Process

Thought through from beginning to end by a full team of contributors, including those responsible for the implementation effort.

2. Right Attitude

Open, honest, direct, as collaborative as possible, and fully committed.

3. Right People

Ensuring that both definition and implementation of strategy are pursued to the highest quality and with the full commitment of the organization.

4. Right Content

Ensuring that all relevant issues and opportunities are raised and addressed.

5. Right Thought

Embracing a full understanding of the situation, competitive reality, customer views, and real options, with no sacred cows or political obstacles.

6. Right Creativity

Thinking out of the box on both process and content of strategy.

7. Right Results

Setting the right vision and objectives for the organization and using the strategy process as a best practice example of how to get things done.

These seven "rights" need to be carefully monitored at all times. Although no checklist can replace the motivating effect of high-quality leadership, respecting these rights and specifying the correlative responsibilities for all involved will support the achievement of the highest standards of excellence in your approach to strategy.