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Developing your strategic capability

In his recent book *What you need to know about strategy*¹, Jo Whitehead sets out the six questions that need to be answered to come up with a good strategy. In this article, he differentiates between those questions that are easy to answer and those that require greater skill and experience. This analysis enables individuals and their trainers to devise development that will strengthen their ability to create strategy.

A common challenge for up and coming executives is the need to broaden their skills in strategy. On the plus side, these executives are often highly experienced and have a strong intuitive understanding of certain strategic issues. However, while they may be familiar with a range of tools and models, they often lack a framework within which to structure their thoughts, and the experience of being involved in creating strategy.

These executives, their trainers, and the HR professionals responsible for their learning and development, need to understand their strengths and identify the gaps. The more people can pinpoint what they **do** know, the more confident they can be about the contribution they can make to strategic debate within the organisation. The more they can be precise about their deficiencies, the better they can address those issues.

Strategy in six questions

In order for individual executives and organisations to develop strategic capability, a good place to start is to lay out the essence of what it takes to come up with a strategy before going on to assess strengths and areas needing development. *What you need to know about strategy* suggests that there are six questions that need to be answered. There are also some common sub-questions that also need to be answered along the way (see Fig 1).

Executives find some of these questions rather easy to answer, but there are others that they struggle with, as outlined below:

What is the external environment?

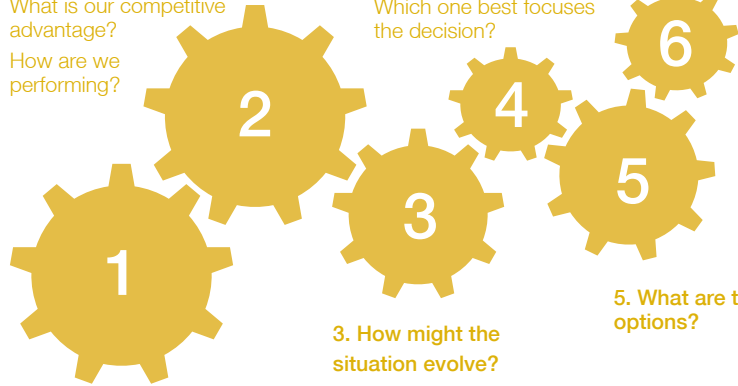
- **Easy:** Which segments of the market are growing?
- **Difficult:** Which of these segments offer attractive margins?

For example, many people spotted that the internet offered exciting new opportunities. Rather fewer spotted where it was possible to extract an adequate profit margin. To do this you need to understand the economics of the industry, and Porter's *Five Forces* is still the best tool for doing this². The challenge in using it is that it is qualitative and requires judgment — so people need to have a great deal of practice to become confident and capable.

- **Difficult:** Coming up with an innovative segmentation of the business. Many great strategic insights have come from innovative segmentation. But teaching this skill is very hard. There are few established ways to come up with such insights and it requires a mix of skill, experience and artistry. But — it *is* possible to structure one's thought processes³.

2. What is the internal situation?

What are our objectives?
What value are we creating for customers?
What is our competitive advantage?
How are we performing?



1. What is the external environment?

What industry segments are we in?
How attractive are those segments?
What is the influence of the macro environment?

What is the internal situation?

- **Easy:** What is your organisation good and bad at?
- **Difficult:** How these strengths can translate into a significant and sustainable competitive advantage that delivers value for customers.

In order to know where to cut costs and how to build superior customer value, executives need an understanding of the current sources of competitive advantage in their business and how they work together. For example, Apple's recent success stems from understanding that their competitive advantage lies in their superior design capabilities — which have allowed them to build easy-to-use personal computers and laptops. They were then able to look for new markets where these capabilities could create significant

4. What is the primary issue?

What are alternative framings of the situation?
Which one best focuses the decision?

6. Which option is best?

3. How might the situation evolve?

What are the key uncertainties?
How might they evolve?
Which are the most important?

5. What are the options?

value for consumers — for example, in downloading music to MP3 players, making it much easier to access and play music. Many executives have an idea about what their company is good at: fewer can think through which capabilities translate into a concrete price premium or cost advantage.

How might the situation evolve?

- **Easy:** Projection of current trends.
- **Difficult:** Thinking about step changes in the way the industry might develop, for example, as a result of disruptive competitors. Executives tend to be overly confident about their ability to predict the future — and need to learn to open their minds to more “unlikely” but, in fact, credible scenarios⁴.

Fig 1 Basic questions in strategy

What is the primary issue?

- **Easy:** An intuitive judgment about the issue based on one's personal or professional perspective. For example, the sales director may be inclined to define the primary issue as "How to grow", whereas the production manager sees the strategic issue as "How to cut costs."
- **Difficult:** Seeing that there may be other ways to frame the situation – and that you can't do it all by yourself.

What are the options?

- **Easy:** Jumping to a conclusion about the best option.
- **Difficult:** Opening one's mind to other options. Going back to the Apple example, the iPod design did not originate from Apple – it actually came from a visiting consultant. But Steve Jobs and the Apple organisation were open enough to new ideas to adopt it. Key to this was having a general idea of what they wanted to do (get into the music business) but being flexible about ways to do it.

Which option is best?

- **Easy:** Over-committing to your favourite options.
- **Difficult:** Being reflective about the evaluation criteria to be used in ranking a range of options. For example, finance managers should avoid the temptation to rely solely on evaluation of options according to metrics of risk and return, without taking into account strategic criteria and whether options are really feasible⁵.

In summary, any individual is likely to have a mixed bag of strategy skills. Auditing where their skills are adequate and where they need strengthening is a first step to developing further.

Process skills

Having highlighted what is easy and what is difficult in answering the six strategy questions, we turn now to the strategy process. Strategies are rarely created by one individual – as mentioned earlier, even a renowned strategist such as Steve Jobs needed others to contribute to the design of Apple's recent strategy and the process through which it was implemented⁶. What do those responsible for the strategy process find easy, and what difficult?

What is easy is to recognise the need for a process and to come up with an initial suggestion – often based on past experience or expert transplanted "best practice". Often, what springs to mind is a thorough analysis of the situation, involving the collection of data about markets, customers, competitors and so on, often spread over several weeks or months. This is where time honoured tools and models like Porter's *Five Forces*, cost and competitor analysis and scenarios can be useful.

However, writers such as Henry Mintzberg have pointed out that strategies are often created through much less structured processes. He likens strategy formation to the way a potter shapes a pot on the wheel; it is partly the application of a learned skill and partly an intuitive response to the nature of the situation and the emerging results. Good ideas sometimes turn out badly but give rise to new learning and opportunities – the very act of making the pot improves the skill of the potter⁷.

However, what is less clear from authors such as Mintzberg is what this means in practice⁸. While it is certainly true that the strategy process is often iterative, and a learning experience – what does that mean for the executive asked to run a strategy process? It is clear that there is a need to be thoughtful about how to create

strategy – but what are some pragmatic alternative approaches that can be used?

The six questions can again be a helpful place to start in grappling with the challenges of designing a strategy process. There are a range of typical approaches – but all can be referenced back to different ways in which the six questions can be answered. For example, what I term "The Full Monty" approach consists of a careful and rigorous answering of each question in turn – the classic strategy consultants study. But, it is also possible to go through the six questions in a few hours – answering them using a group of experts in what I call the "Quick and dirty" approach. This works well if the members of the group already have the information and experience required to answer the questions.

It is also possible to start half way through the questions – for example, with a brainstorm about the issues or the options (see Fig 2 for a fuller list of approaches). This works well if there is a shared view of the current external and internal situation and how it will evolve. In summary – there are a number of different approaches – each with its own pros and cons and thus which work in particular circumstances.

Having chosen the main approach to your strategy process there is still some fine tuning to be done. For example, you need to customise your strategy process according to a number of factors, including:

1. **The ambition.** Is your strategy intended to be a one year plan for an existing strategy (easy) or a visionary statement of what you might like to become in ten years time (more difficult)?
2. **The level of uncertainty you have to deal with.** Does your strategy need to be a detailed plan that assumes one course of action (easy), or a set of options and approaches for dealing

Approach	Description	Pros	Issues / comments
The Full Monty	<ul style="list-style-type: none"> Start with “What is the current situation?” Ensure rigorous and logical answers to all questions before proceeding to the next one 	<ul style="list-style-type: none"> Rigorous Builds solid fact base on which options and decisions are securely founded 	<ul style="list-style-type: none"> Slow Expensive on resources
Quick and dirty with follow-up	<ul style="list-style-type: none"> Quick run through of all questions, followed by focus on questions/sub-questions requiring more attention 	<ul style="list-style-type: none"> Allows quick sharing of ideas Identifies areas requiring further analysis and debate 	<ul style="list-style-type: none"> Requires reasonable knowledge and/or diversity of opinion to avoid jumping to conclusions prematurely
Future thinking	<ul style="list-style-type: none"> Start with “How might the situation develop?” Then draw out issues or options 	<ul style="list-style-type: none"> Stimulates creativity about the current situation, issues and options 	<ul style="list-style-type: none"> Requires good prior knowledge of current situation
Frame the issue	<ul style="list-style-type: none"> Start with “What is the primary issue – what type of solution is required?” Identify options/ further analysis required 	<ul style="list-style-type: none"> Allows rapid focus on most relevant options Stimulates discussion of alternative frames 	<ul style="list-style-type: none"> Requires good prior knowledge of current situation and how it is likely to develop
What are the options?	<ul style="list-style-type: none"> Start with “What are the options?” Then identify further analysis required 	<ul style="list-style-type: none"> Cuts to critical issue Stimulates discussion of alternative choices 	<ul style="list-style-type: none"> Requires sound understanding of answers to prior questions
Test and learn	<ul style="list-style-type: none"> Try something. Adjust strategy based on results 	<ul style="list-style-type: none"> Effective when uncertainty is high and incremental 	<ul style="list-style-type: none"> May result in evolutionary changes only
Intrusive bouncing	<ul style="list-style-type: none"> Jump between questions punctuated by periods of focus on critical questions 	<ul style="list-style-type: none"> Permits focus on most important issues 	<ul style="list-style-type: none"> Can descend into chaos Requires an experienced strategist

Fig 2 Alternative ways to sequence the questions

with a highly unpredictable future (more difficult)?

- How much time do you have?** Can you spend six months, spreading out the analysis and debate — or do you need an answer by the end of the month?
- What are the biases that you will have to deal with?** Do you need to break people out of their current mindsets? Are there some firmly entrenched political interests that might derail the process (difficult)? Or, is the strategy team composed of sufficiently diverse people, able to get along with

each other and have a strong debate in order to come up with the best option (easy)?⁹

Designing the right strategy process is something of an art. Using the approach described above, you can pick the right process for your situation.

Implications

So, what are the implications for those who want to develop the strategic capability of themselves, their teams or their organisation? In brief:

Focus not just on developing knowledge of the tools and frameworks used to create a winning strategy, but also on developing the capability to design an appropriate strategy process.

The right concepts are critical in shaping strategy — but so is the human process whereby strategy is debated, developed and implemented. Topics such as dealing with biases, framing decisions and designing a customised strategy process are often glossed over — but contribute as much to effective strategy as knowing the right tools. It is harder to communicate and teach skills in these areas, and some of

them are better learned on-the-job, rather than in the classroom. But this does not mean that developing your organisation's ability to design processes is not something to manage!

Design learning and development plans that take into account both individual and wider organisational needs.

Strategy can be a very top down activity, and it can be something done organically by many people in the organisation making small changes that evolve the organisation into bigger changes. But, more often it is a mixture of both. Therefore any attempt to improve strategic decision making is likely to require a coordinated effort to train up both individuals and the organisation.

For example, I often have up and coming executives on our strategy programmes who have been told that they need to be "more strategic". Equally, we are often involved in training cadres of managers at a particular company that has decided it needs to become more strategic. Both make sense – and a combination of both makes even more sense!

Build on the strengths that you have, and address specific weaknesses.

It's important to recognise the strengths and weaknesses of different individuals and also those that might be inherent in the culture of organisations or industries.

For example, a recruitment company was highly entrepreneurial, with quite low level managers being given profit and loss responsibility for developing relatively independent parts of the business – typically the roll out of an existing service to a new city. They were good at rapid, intuitive strategic decision making, and understood the principles of strategy very well. What they needed was a more structured

process and some simple frameworks, for example the *Five Forces*, to help them evaluate more complex, long term strategic choices such as whether to enter a completely new country, or the benefits of developing a shared IT platform. To do this they set up a more formal strategy development process and trained all their top 200 managers in strategic thinking.

In contrast, a power utility had a very structured strategy process that went through each strategy question quite rigorously. Run by engineers, the process was logical and reasoned. However, the problem was that this had become quite routine, leading to a lack of vision. The problem was almost the opposite of the recruitment company and so required a very different solution. This was to hold a "vision exercise" in which the top executives wrote an article from the perspective of a journalist writing about the company in ten years' time – reflecting on its achievements. This opened up their minds to a broader range of options than their traditional process.

A proper audit should be made of strengths and weaknesses. You may find the following checklist useful in assessing individuals' or organisations' capabilities in:

1. Understanding the broad external environment
2. Translating an understanding of the environment into a reasoned set of opportunities and threats
3. Translating an understanding of one's own organisation into a reasoned assessment of the unique value created for customers and other stakeholders, and the organisation's competitive advantage
4. Having a rich and reasoned view of how the future might evolve

5. Framing and re-framing the most pressing strategic issue without becoming overly blinkered or frozen in the headlights
6. Generating a wide range of options
7. Evaluating options objectively and being open to new options
8. Designing and customising decision making processes to accommodate differences in prior knowledge, levels of uncertainty, how ambitious is the strategy, and how much time and resource are appropriate and available
9. Recognising the effects of bias and knowing how to deal with it.

Practice, practice, practice

Whatever training and organisational development you do, you will only get better with experience. Difficult skills are difficult partly because they require practice – and too often they are only taught once and then not mentioned again. Any training programme should ideally involve the participants in applying their new found skills to a real strategy. It should ideally involve multiple cycles of application of a new skill, reflection on the results, and reappraisal.

The same is true of organisational initiatives. Most new processes will take several cycles to go from being a novelty to becoming an embedded skill.

Conclusion

In today's busy world you need to get the best out of the time and resources available. By sharpening up your assessment of the strengths and weaknesses of an individual's or an organisation's strategic capabilities, you can improve the rate at which they will learn and develop.

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