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Making Strategy Development Matter

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Strategic planning at most companies doesn't really matter anymore. Sure, the process often consumes an enormous amount of time and produces reams of data, but rarely does it drive top management's decisions or a company's overall strategy.

Why? For starters, the model most companies use for strategy development is not well aligned with the way executives make decisions. Indeed, strategy development at most large companies is a "batch" process—market and competitor information is first analyzed, threats and opportunities are identified, and then a multiyear plan is defined.

This process usually takes place annually in strict accordance with a predetermined planning calendar. Strategic decision making, by contrast, happens continuously—often driven by an immediate need for action— and does not conform easily to a preset schedule.

Ultimately, strategic planning can't have an impact if it doesn't drive decision making. And it can't drive decision making as long as it remains periodic and calendar-based. Thus the key to

making strategy development matter—as a few forward-thinking companies are demonstrating—is to focus on continuously identifying and addressing the strategic issues that can most affect the company's value.

Why accepted strategy development fails

In our experience, the batch model for strategy development has at least two major shortcomings:

1. The time problem.

At many companies, the planning process does not afford management sufficient time to address the issues and opportunities that most affect performance. Many issues—particularly those spanning multiple businesses, crossing geographic boundaries, or involving entire business systems—cannot be resolved effectively in a three- or four-month planning window. As a result, executives do not use the strategic planning process to address these complex problems. They turn instead to some other process for guidance and make their most difficult strategy decisions outside the planning cycle.

Take Gap Inc., for example. In the fall of 2002, when Paul Pressler became CEO, the company had been a significant underperformer in the U.S. retail sector. Its three major brands—Gap, Banana Republic, and Old Navy— had all experienced declines in market share and same-store sales. Arguably, Gap Inc.'s core business model was broken, and senior management had to rethink the company's target customers, merchandise strategy, pricing, real estate portfolio, and supply chain, among other things. Would it be realistic to expect Gap Inc.'s management to have done all this in the few months allotted for strategic planning? Of course not. Such fundamental issues may take years to resolve. Thus, given the firm's gradual but steady turnaround, we suspect Gap Inc.'s

management was forced to confront these challenges outside the regular planning process.

Gap Inc. would not be alone in finding it impossible to sort through complicated strategy issues during the planning cycle. Most executives are well aware that the time required to address many of their strategic priorities does not mesh with the annual, calendar-driven model for strategic planning.

2. The timing problem.

Even when the time allotted for strategy development is sufficient to make tough decisions, the timing of the process often creates problems. Markets and competitors are dynamic. New threats and opportunities emerge that cannot possibly be predicted in a traditional strategic plan. When these threats and opportunities arise, executives can't wait until the next planning cycle to take action. They must act quickly to safeguard the company's performance.

Consider the experience of The Boeing Company. On September 10, 2001, Boeing had a comprehensive strategic plan. Like many companies at the time, it faced a slowing economy, lackluster demand, and fierce competition from a formidable rival (Airbus). Still, no matter how rigorous Boeing's strategic planning process may have been, the company's strategy had to change radically after September 11. New product development investments that may have made perfect sense prior to the attacks could not be justified afterward. Opportunities that may have appeared promising in early September probably evaporated in the wake of 9/11. Thus, when Boeing management decided in mid-September 2001 to lay off 30,000 employees over a period of two years in order to cut costs, it was not the result of anything spelled out in a strategic plan; it was management's timely response to an urgent need for action— one that saved millions of dollars.

The timing problem isn't limited to major external shocks such as 9/11. Indeed, mergers and acquisitions (M&As) frequently fall victim to the timing problem. M&A opportunities often emerge quite spontaneously—the result of management changes at a target company, the actions of a competitor, or some other unpredictable or serendipitous event. Faced with a promising M&A opportunity and limited time in which to act, executives don't wait until the opportunity can be evaluated as part of the annual planning process. Rather, they assess the deal and make a timely decision. Thus, despite the fact that an M&A can have a tremendous impact on a company's strategy and performance, more often than not the timing of these decisions necessitates that they be made outside the planning cycle.

A continuous strategy model

A few leading companies have recognized the weakness of traditional strategy development and are employing an entirely different model for strategy development and execution— one in which assessment and action are under continual review.

At the London-based food and beverage company Cadbury Schweppes, for example, the strategy development process is organized around a strategy agenda that lists the issues and opportunities that top management believes must be addressed for the company to deliver superior performance. Some issues are broad, such as "counteract obesity" or "fuel profitable growth"; others are narrower, such as "expand in noncarbonated beverages" or "capture the synergies from the Adams acquisition." But every issue on the strategy agenda has a direct, measurable impact on the company's intrinsic value and therefore must be addressed as part of the strategy development process.

Once Cadbury's chief executive committee (CEC) agrees on a

strategy agenda, its members establish clear accountabilities and milestones for resolving each item. One member of the team is made responsible for ensuring that a particular issue on the strategy agenda is addressed in a timely and effective manner. Unambiguous decision timetables are established for each issue, specifying when the CEC will make a final decision. This process drives highquality decision making and accelerates the pace of strategy development and execution.

In our experience, the continuous strategy development model differs from traditional strategy making in at least two fundamental ways:

1. Different outputs.

The output of strategic planning has traditionally been, as one might expect, a strategic plan. The outputs of continuous strategy development are quite different. Under a continuous approach, strategy isn't a plan; rather, it is a direction for the company and an agenda of issues and opportunities to drive change in that direction. This process focuses top management on what matters most—setting the right strategic direction—and allows decisions to be considered in the context of that direction, in real time.

Cadbury Schweppes, for example, has long held a strong position in carbonated beverages, owning the 7 UP and Dr Pepper brands. Facing relatively slow growth and stiff competition in carbonated beverages, Cadbury Schweppes acquired Snapple for $1.45 billion in 2000. Was this transaction spelled out in any grand strategic plan? No. Rather, senior management made the decision to move into noncarbonated beverages as part of a broad strategic direction to enrich the company's position in the beverage markets in which it had chosen to compete. As a result, one of the issues on senior management's agenda had been how best to enter the U.S. noncarbonated beverages market. When the

Snapple opportunity arose, senior management, after due diligence, could comfortably close the deal, knowing it was consistent with the company's strategic direction.

The notion that strategy is something that can be planned well in advance and then executed is out of step with our rapidly changing world. Since no executive, not even the most brilliant strategist, is clairvoyant, strategic development today should produce not a plan but a direction and an agenda.

2. Clearer accountabilities.

Ironically, as elaborate as most traditional strategy development processes are, they establish few real accountabilities. After all, no one individual can be held responsible for ensuring that a multiyear strategic plan is effectively executed. Even if everything were to go according to plan, most executives move on before any multiyear plan can be realized, and few control all elements of plan implementation during their tenure.

While managers can't be held accountable for carrying out a multiyear strategic plan, they can be held accountable for addressing key strategic issues. Each item on the strategy agenda should have an individual accountable for addressing it, along with a timetable for its resolution. At the end of the year, if an issue remains on the agenda—that is, if no decision has been reached and no action taken— top management can incorporate this fact into its evaluation of the appropriate manager's performance.

Because accountabilities are clearer under a continuous strategy development model than under traditional strategic planning, the approach frequently accelerates the pace of strategic decision making and thus fuels value growth. Many executives have grown skeptical of strategic planning. And is it any wonder? After all, if

the purpose of strategy development isn't to drive a company's strategy, then what is its purpose? And if driving a company's strategy isn't about influencing top management's decisions, then what is it about? For strategy development to be worthwhile, the process needs to be redesigned to focus not on developing a static plan but on continuously addressing the issues and opportunities that will have the greatest impact on long-term value for shareholders.

Michael C. Mankins is a managing partner of Marakon Associates and a coauthor of *The Value Imperative* (Free Press, 1994).

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