



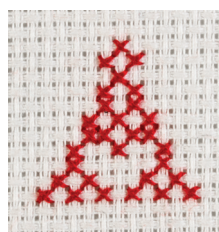


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The Big Lie of Strategic Planning

ILLUSTRATION: NICOLE DE VRIES PHOTOGRAPHY: ELIE HONEIN

A detailed plan may be comforting, but it's not a strategy. by Roger L. Martin



Most executives know that strategy is important. But almost all also find it scary, because it forces them to confront a future they can only guess at. Worse, actually choosing a strategy entails making decisions that explicitly cut off possibilities and options. An executive may well fear that getting those decisions wrong will wreck his or her career.

The natural reaction is to make the challenge less daunting by turning it into a problem that can be solved with tried and tested tools. That nearly always means spending weeks or even months preparing a comprehensive plan for how the company will invest in existing and new assets and capabilities in

order to achieve a target—an increased share of the market, say, or a share in some new one. The plan is typically supported with detailed spreadsheets that project costs and revenue quite far into the future. By the end of the process, everyone feels a lot less scared.

This is a truly terrible way to make strategy. It may be an excellent way to cope with fear of the unknown, but fear and discomfort are an essential part of strategy making. In fact, if you are entirely comfortable with your strategy, there's a strong chance it isn't very good. You're probably stuck in one or more of the traps I'll discuss in this article. You need to be uncomfortable and apprehensive: True strategy is about placing bets and making hard choices. The objective is not to eliminate risk but to increase the odds of success.

In this worldview, managers accept that good strategy is not the product of hours of careful research and modeling that lead to an inevitable and almost perfect conclusion. Instead, it's the result of a simple and quite rough-and-ready process of thinking through what it would take to achieve what you want and then assessing whether it's realistic to try. If executives adopt this definition, then maybe, just maybe, they can keep strategy where it should be: outside the comfort zone.

Comfort Trap 1: Strategic Planning

Virtually every time the word “strategy” is used, it is paired with some form of the word “plan,” as in the process of “strategic planning” or the resulting “strategic plan.” The subtle slide from strategy to planning occurs because planning is a thoroughly doable and comfortable exercise.

Strategic plans all tend to look pretty much the same. They usually have three major parts. The first is a vision or mission statement that sets out a relatively lofty and aspirational goal. The second is a list of initiatives—such as product launches, geographic expansions, and construction projects—that the organization will carry out in pursuit of the goal. This part of the strategic plan tends to be very organized

but also very long. The length of the list is generally constrained only by affordability.

The third element is the conversion of the initiatives into financials. In this way, the plan dovetails nicely with the annual budget. Strategic plans become the budget's descriptive front end, often projecting five years of financials in order to appear “strategic.” But management typically commits only to year one; in the context of years two through five, “strategic” actually means “impressionistic.”

This exercise arguably makes for more thoughtful and thorough budgets. However, it must not be confused with strategy. Planning typically isn't explicit about what the organization chooses not to do and why. It does not question assumptions. And its dominant logic is affordability; the plan consists of whichever initiatives fit the company's resources.

Mistaking planning for strategy is a common trap. Even board members, who are supposed to be keeping managers honest about strategy, fall into it. They are, after all, primarily current or former managers, who find it safer to supervise planning than to encourage strategic choice. Moreover, Wall Street is more interested in the short-term goals described in plans than in the long-term goals that are the focus of strategy. Analysts pore over plans in order to assess whether companies can meet their quarterly goals.

Comfort Trap 2: Cost-Based Thinking

The focus on planning leads seamlessly to cost-based thinking. Costs lend themselves wonderfully to planning, because by and large they are under the control of the company. For the vast majority of costs, the company plays the role of customer. It decides how many employees to hire, how many square feet of real estate to lease, how many machines to procure, how much advertising to air, and so on. In some cases a company can, like any customer, decide to stop buying a particular good or service, and so even severance or shutdown costs can be under its control. Of course there are exceptions. Government agencies tell companies that they need to remit payroll taxes for each employee and buy a certain

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Idea in Brief

THE PROBLEM

In an effort to get a handle on strategy, managers spend thousands of hours drawing up detailed plans that project revenue far into the future. These plans may make managers feel good, but all too often they matter very little to performance.

WHY IT HAPPENS

Strategy making is uncomfortable; it's about taking risks and facing the unknown. Unsurprisingly, managers try to turn it into a comfortable set of activities. But reassurance won't deliver performance.

THE SOLUTION

Reconcile yourself to feeling uncomfortable, and follow three rules:

Keep it simple. Capture your strategy in a one-pager that addresses where you will play and how you will win.
Don't look for perfection. Strategy isn't about finding answers. It's about placing bets and shortening odds.
Make the logic explicit. Be clear about what must change for you to achieve your strategic goal.

amount of compliance services. But the proverbial exceptions prove the rule: Costs imposed on the company by others make up a relatively small fraction of the overall cost picture, and most are derivative of company-controlled costs. (Payroll taxes, for instance, are incurred only when the company decides to hire an employee.)

Costs are comfortable because they can be planned for with relative precision. This is an important and useful exercise. Many companies are damaged or destroyed when they let their costs get out of control. The trouble is that planning-oriented managers tend to apply familiar, comfortable cost-side approaches to the revenue side as well, treating revenue planning as virtually identical to cost planning and as an equal component of the overall plan and budget. All too often, the result is painstaking work to build up revenue plans salesperson by salesperson, product by product, channel by channel, region by region.

But when the planned revenue doesn't show up, managers feel confused and even aggrieved. "What more could we have done?" they wonder. "We spent thousands upon thousands of hours planning."

There's a simple reason why revenue planning doesn't have the same desired result as cost planning. For costs, the company makes the decisions. But for revenue, customers are in charge. Except in the rare case of monopolies, customers can decide of their own free will whether to give revenue to the company, to its competitors, or to no one at all. Companies may fool themselves into thinking that revenue is under their control, but because it is neither knowable nor controllable, planning, budgeting, and forecasting it is an impressionistic exercise.

Of course, shorter-term revenue planning is much easier for companies that have long-term contracts with customers. For example, for business information provider Thomson Reuters, the bulk of its

revenue each year comes from multiyear subscriptions. The only variable amount in the revenue plan is the difference between new subscription sales and cancellations at the end of existing contracts. Similarly, if a company has long order backlogs, as Boeing does, it will be able to predict revenue more accurately, although the Boeing Dreamliner tribulations demonstrate that even "firm orders" don't automatically translate into future revenue. Over the longer term, all revenue is controlled by the customer.

The bottom line, therefore, is that the predictability of costs is fundamentally different from the predictability of revenue. Planning can't and won't

Giant Opportunities Encourage Bad Strategy



Companies in many industries prefer a small slice of a huge market to a large slice of a small one. The thinking is, of course, that the former promises unlimited growth potential. And there's a certain amount of truth to that. But all too often, the size of the opportunity encourages sloppy strategy making. Why choose where to play or how to win when there's a huge market to conquer? Anybody is a potential customer, so just go out and sell stuff.

But when anyone could be a customer, it is impossible to figure out whom to target and what those people actually want. The results tend to be an offering that is not captivating to anybody and a sales force that doesn't know where to spend its time. This is when crisp strategy making and clear thinking about opportunities are most important.

When you're facing a huge growth opportunity, it is smarter to think sequentially: Determine what piece of the overall market to tackle first and target it precisely and relentlessly. Once you've achieved a dominant position in that segment, expand from there into the next, and so on.

make revenue magically appear, and the effort you spend creating revenue plans is a distraction from the strategist's much harder job: finding ways to acquire and keep customers.

Comfort Trap 3: Self-Referential Strategy Frameworks

This trap is perhaps the most insidious, because it can snare even managers who, having successfully avoided the planning and cost traps, are trying to build a real strategy. In identifying and articulating a strategy, most executives adopt one of a number of standard frameworks. Unfortunately, two of the most popular ones can lead the unwary user to design a strategy entirely around what the company can control.

In 1978 Henry Mintzberg published an influential article in *Management Science* that introduced *emergent strategy*, a concept he later popularized for the wider nonacademic business audience in his successful 1994 book, *The Rise and Fall of Strategic Planning*. Mintzberg's insight was simple but indeed powerful. He distinguished between *deliberate*

strategy emerges as events unfold as a justification for declaring the future to be so unpredictable and volatile that it doesn't make sense to make strategy choices until the future becomes sufficiently clear. Notice how comforting that interpretation is: No longer is there a need to make angst-ridden decisions about unknowable and uncontrollable things.

A little digging into the logic reveals some dangerous flaws in it. If the future is too unpredictable and volatile to make strategic choices, what would lead a manager to believe that it will become significantly less so? And how would that manager recognize the point when predictability is high enough and volatility is low enough to start making choices? Of course the premise is untenable: There won't be a time when anyone can be sure that the future is predictable.

Hence, the concept of emergent strategy has simply become a handy excuse for avoiding difficult strategic choices, for replicating as a "fast follower" the choices that appear to be succeeding for others, and for deflecting any criticism for not setting out in a bold direction. Simply following competitors' choices will never produce a unique or valuable advantage. None of this is what Mintzberg intended, but it is a common outcome of his framework, because it plays into managers' comfort zone.

In 1984, six years after Mintzberg's original article introducing emergent strategy, Birger Wernerfelt wrote "A Resource-Based View of the Firm," which put forth another enthusiastically embraced concept in strategy. But it wasn't until 1990, when C.K. Prahalad and Gary Hamel wrote one of the most widely read HBR articles of all time, "The Core Competence of the Corporation," that Wernerfelt's resource-based view (RBV) of the firm was widely popularized with managers.

RBV holds that the key to a firm's competitive advantage is the possession of valuable, rare, inimitable, and non-substitutable capabilities. This concept became extraordinarily appealing to executives, because it seemed to suggest that strategy was the identification and building of "core competencies," or "strategic capabilities." Note that this conveniently falls within the realm of the knowable and controllable. Any company can build a technical sales force or a software development lab or a distribution network and declare it a core competence. Executives can comfortably invest in such capabilities and control the entire experience. Within reason, they can guarantee success.

Focus your energy on the key choices that influence revenue decision makers—that is, **customers.**

strategy, which is intentional, and emergent strategy, which is not based on an original intention but instead consists of the company's responses to a variety of unanticipated events.

Mintzberg's thinking was informed by his observation that managers overestimate their ability to predict the future and to plan for it in a precise and technocratic way. By drawing a distinction between deliberate and emergent strategy, he wanted to encourage managers to watch carefully for changes in their environment and make course corrections in their deliberate strategy accordingly. In addition, he warned against the dangers of sticking to a fixed strategy in the face of substantial changes in the competitive environment.

All of this is eminently sensible advice that every manager would be wise to follow. However, most managers do not. Instead, most use the idea that a

Are You Stuck in the Comfort Zone?

Probably

You have a large corporate strategic planning group.

In addition to profit, your most important performance metrics are cost- and capabilities-based.

Strategy is presented to the board by your strategic planning staff.

Board members insist on proof that the strategy will succeed before approving it.

Probably Not

If you have a corporate strategy group, it is tiny.

In addition to profit, your most important performance metrics are customer satisfaction and market share.

Strategy is presented to the board primarily by line executives.

Board members ask for a thorough description of the risks involved in a strategy before approving it.

The problem, of course, is that capabilities themselves don't compel a customer to buy. Only those that produce a superior value equation for a particular set of customers can do that. But customers and context are both unknowable and uncontrollable. Many executives prefer to focus on capabilities that can be built—for certain. And if those don't produce success, capricious customers or irrational competitors can take the blame.

Escaping the Traps

It's easy to identify companies that have fallen into these traps. (See the exhibit "Are You Stuck in the Comfort Zone?") In those companies, boards tend to be highly comfortable with the planners and spend lots of time reviewing and approving their work. Discussion in management and board meetings tends to focus on how to squeeze more profit out of existing revenue rather than how to generate new revenue. The principal metrics concern finance and capabilities; those that deal with customer satisfaction or market share (especially changes in the latter) take the backseat.

How can a company escape those traps? Because the problem is rooted in people's natural aversion to

discomfort and fear, the only remedy is to adopt a discipline about strategy making that reconciles you to experiencing some angst. This involves ensuring that the strategy-making process conforms to three basic rules. Keeping to the rules isn't easy—the comfort zone is always alluring—and it won't necessarily result in a successful strategy. But if you can follow them, you will at least be sure that your strategy won't be a bad one.

Rule 1: Keep the strategy statement simple.

Focus your energy on the key choices that influence revenue decision makers—that is, customers. They will decide to spend their money with your company if your value proposition is superior to competitors'. Two choices determine success: the where-to-play decision (which specific customers to target) and the how-to-win decision (how to create a compelling value proposition for those customers). If a customer is not in the segment or area where the company chooses to play, she probably won't even become aware of the availability and nature of its offering. If the company does connect with that customer, the how-to-win choice will determine whether she will find the offering's targeted value equation compelling.

If a strategy is about just those two decisions, it won't need to involve the production of long and tedious planning documents. There is no reason why a company's strategy choices can't be summarized in one page with simple words and concepts. Characterizing the key choices as where to play and how to win keeps the discussion grounded and makes it more likely that managers will engage with the strategic challenges the firm faces rather than retreat to their planning comfort zone.

Rule 2: Recognize that strategy is not about perfection. As noted, managers unconsciously feel that strategy should achieve the accuracy and predictive power of cost planning—in other words, it should be nearly perfect. But given that strategy is primarily about revenue rather than cost, perfection is an impossible standard. At its very best, therefore, strategy shortens the odds of a company's bets. Managers must internalize that fact if they are not to be intimidated by the strategy-making process.

For that to happen, boards and regulators need to reinforce rather than undermine the notion that strategy involves a bet. Every time a board asks managers if they are sure about their strategy or regulators make them certify the thoroughness of their strategy decision-making processes, it weakens actual strategy making. As much as boards and regulators may want the world to be knowable and controllable, that's simply not how it works. Until they accept this, they will get planning instead of strategy—and lots of excuses down the line about why the revenue didn't show up.

Rule 3: Make the logic explicit. The only sure way to improve the hit rate of your strategic choices is to test the logic of your thinking: For your choices to make sense, what do you need to believe about customers, about the evolution of your industry, about competition, about your capabilities? It is critical to write down the answers to those questions, because the human mind naturally rewrites history and will declare the world to have unfolded largely as was planned rather than recall how strategic bets were actually made and why. If the logic is recorded and then compared to real events, managers will be able to see quickly when and how the strategy is not producing the desired outcome and will be able to make necessary adjustments—just as Henry Mintzberg envisioned. In addition, by observing with some level of rigor what works and what doesn't, managers will be able to improve their strategy decision making.

As managers apply these rules, their fear of making strategic choices will diminish. That's good—but only up to a point. If a company is completely comfortable with its choices, it's at risk of missing important changes in its environment.

I HAVE argued that planning, cost management, and focusing on capabilities are dangerous traps for the strategy maker. Yet those activities are essential; no company can neglect them. For if it's strategy that compels customers to give the company its revenue, planning, cost control, and capabilities determine whether the revenue can be obtained at a price that is profitable for the company. Human nature being what it is, though, planning and the other activities will always dominate strategy rather than serve it—unless a conscious effort is made to prevent that. If you are comfortable with your company's strategy, chances are you're probably not making that effort. ♥

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CARTOON: ROY DELGADO



"I regret not taking management classes."

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