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Point of View

Building a Robust Strategy in an Age of Disruption

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The world is moving on. The vast majority of organisations will cease to exist in their current form. Some will disappear, some will lose market power, others will be absorbed. Yet the world of strategy management has largely stood still. Many organisations still hold firm to the classic approach of laboriously shaping a five-year strategy and executing as is. In most industries, the five-year strategic timeframe is fast coming to an end, and so are strategies that state, “We will do more of the same.”

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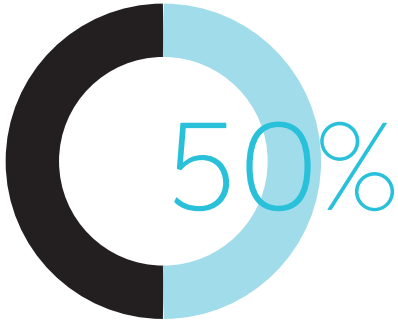
Consider the facts. Global research by Palladium found that out of almost 1300 respondents, 82% of executives agreed that changes in their business environment are intense and 72% believe their business model will be under threat in the next five years (61% state that this is already the case). Worryingly, although leaders know that the danger comes from outside the organisation, few are doing much about it, with only 24% of organisations constantly monitoring their competitive environment. Tellingly, those that do are 6.7 times more likely to achieve breakthrough financial performance than those that do not.[1]

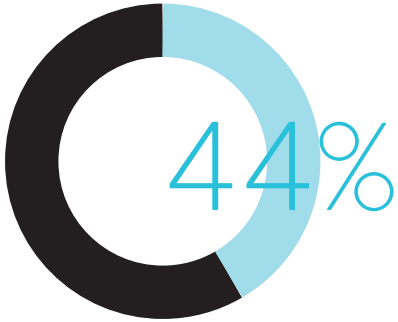
[1] *2014 Global State of Strategy and Leadership Survey Report*, Palladium

Each executive and strategy practitioner has experience this moment of doubt when updating their corporate strategy. *Is my strategy the right one? Is it innovative enough? Will it deliver the right return?* And most importantly: *Is the organisation equipped to execute effectively?*

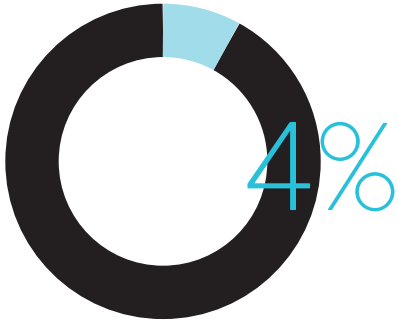
We believe that being cognisant of the disruptors that are shifting the market conditions (competition, distribution, regulation, customer behaviours, macroeconomic factors, etc.) is just the beginning of shaping a robust strategy. What's next is for leaders to challenge the status quo and develop daring business models that push the market boundaries.



50% of the ASX top 50 from 2000 are still there today



44% of the Fortune 500 have fallen off the list in the last 15 years — 86% since 1955



4% of the FTSE 100 remain since its creation in 1984

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Strategy Formulation Challenges

According to our research and field observations, there are three key drivers of strategic failure that organisations need to constantly keep front-of-mind:

1. Hanging on to business models that are outdated
2. Failure to create deep connections with customers
3. Unwillingness (or inability) to adapt to changes occurring around them

These drivers are hardly new, but their impact is much greater than ever before. The cataclysmic collapse of the once all-powerful Eastman Kodak is a textbook example of how these drivers play out: Total refusal to abandon a strategy and business model that had worked for a century, failure to monitor the changes in customer behaviour and a veritably ostrich-like "head in the sand" response to a dramatically changing world. But Eastman Kodak was far from alone and many, many others are sure to follow. The brand goes stale, core strengths languish and opportunities to keep pace with – or get in front of – changing customer needs pass them by. The world moves on; they don't.

Perhaps *the* key strategic question that senior executives must constantly ask is what we call the "relevance" question: *Is what I am making or selling still relevant, and will it be relevant five or ten years from now?* Relevance means constantly questioning the strategy and its execution hypothesis, getting closer and closer to the customer (think co-creation, as we explain below) and relentlessly innovating on your core assets.

Again, Palladium's research paints a gloomy picture. Only 14% of organisations regularly update their strategies in response to changes in the market. Moreover, although research respondents were in agreement (93%) that innovation is a key factor to their future success, just 36% believe they are good at innovating. Indeed, most respondents believe they are poor at all forms of innovation studied, including incremental innovation (product/service and process innovation), customer experience innovation and business model innovation (reinventing aspects of an organisation's value proposition or operating model). Sixteen percent do not use any innovation at all. In a time of such critical disruptions, these numbers are concerning.

To deepen the gloom, 59% of executives believe that decision making in their organisation is too slow to successfully execute strategy. The undeniable fact is that the pace of change is far more rapid than most organisations' strategy decision-making processes can operate. It is clearly not a good sign and certainly a call for action if the market is moving faster than you are.

From a practical point of view, this slowness is partly the result of the fact that the strategy formulation process in most organisations is no longer fit-for-purpose. Most organisations simply do not have the time to spend months painfully crafting the perfect long-term strategy. Yet most strategies are formulated to a set, static cycle and refreshed periodically, again on a calendar cycle. The result is a big strategy document that is quickly out of date. As a corollary, we refresh (reforecast) our budget but not our strategy. Indeed, many organisations are no longer working to set budgets but to rolling forecasts that are more event or impact driven. A more agile strategy formulation process is required in an age of disruption. General Dwight Eisenhower's famous comment that "the plan is useless but planning is indispensable" is perhaps even more relevant today.

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Furthermore, although they are still useful in today's dynamic environment, we must move on from an over-reliance on static tools from the 1960s such as PESTEL and SWOT. We must continually collect and analyse data and reshape our plans accordingly and in near real time.

To achieve this level of agility, we must also move on from our dependency on internal Key Performance Indicators (KPIs). Indeed all KPIs are by nature backward-looking: they tell us what *has* happened. Strategic agility requires a stronger emphasis on understanding what *will* happen. Advanced data analytics must be fully integrated into the complete strategy management cycle and complement the insights from historic KPIs. We also recommend establishing indicators that look at the business environment, rather than consider internal performance. A regular review of what one might call "Key Disruptive Indicators" will help leaders keep an eye on the market shape, trends, speed of

A Recipe for Innovative Strategies

Traditional Strategies	Innovative Strategies
Operate within defined industry boundaries	Invent new boundaries
Innovate products and processes	Innovate experiences and interactions
Deliver functional efficiency	Get close to the customer/consumer
Organise vertical integration	Create open networks
Evolve strategy in a linear way	Challenge embedded assumptions

Strategy Formulation Key Considerations

Once the strategy is formulated with up-to-date external and internal insights, executing that strategy requires constantly starting **new initiatives** (only 9% of organisations truly succeed with their strategic initiatives, according to the Palladium research) so to build and exploit many transient competitive advantages at once.

Developing strong innovative strategies requires a mindset shift from an internal bias to an **external bias**. Our decision-making process should be biased towards what the customer/market/environment is telling us in order to understand which key trends and advances will most impact the value delivered to the customers/market. We would argue that this age of disruption might also be named "the age of the customer." Proliferating competition supported by ready access to masses of online data on potential product/service providers is placing all of the power with the customer. There will be no going back the supplier-dominated relationships of yesterday.

Bringing customers to the heart of strategy development has long been a corporate mantra, and terms such as "customer-centricity" and "delighting the customer" abound. However well-intentioned, they are too often lost in the chaos of everyday service delivery. Too few organisations are taking the time to truly co-create product and service offerings with customers. Co-creation requires working closely with customers (and potentially suppliers and employees) to redefine the value equation: genuinely talking to the customer, understanding the customer's experience and where they are being let down and finding innovative ways to fix these problems by delivering improved or new customer-facing experiences.

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That said, organisations must also keep a constant eye open for potential **market disruptors**, those that offer the customer the same offering but in a completely new and preferable way. Again making reference to the textbook Eastman Kodak case, they simply refused to consider potential market disruptors. Bear in mind that customers do not buy a product or service, they buy a function (that is, it solves a problem or enhances a pleasure). Eastman Kodak believed that they sold film – but they really sold a mechanism for capturing memories. For most people, a phone does this much better (and of course cheaper) than film that has to be processed. Simply improving their processing capabilities could not stem the customer attrition. The lesson: always think about the function or experience that the customer is looking for, and if opportunities are identified, be the disruptor of your industry before others do it for you. As the pioneering car manufacturer Henry Ford once said, "If I had given the customer what they asked for, I would have given them faster horses."

In an age of disruption, the **assumptions** that underpin a strategy must be continually challenged. We must ask what products and services we sell, to whom and where. We must ask the critical question: What function or experience is the customer actually buying? They might not know what this is until they see it. Few people complained that the early generation cell phones couldn't take a photograph – but they readily bought it when they saw it.

Putting aside the struggles to formulate a strategy, even the best strategies still have to be executed. There has to be an established and robust strategy execution system, but one that can readily adapt to sudden and/or disruptive change. This requires alignment and agility. Both are significant issues, according to the aforementioned Palladium study. Fully 79% of organisations report poor horizontal alignment across departments and business units, and 54% reported poor vertical alignment to their strategy.

The Strategy Map and Balanced Scorecard are well-embedded in many organisations as the preferred strategy execution system, and research shows that they make a significant difference in alignment. The study found that whereas just 8% of Balanced Scorecard users believed they had poor alignment to the strategy, the figure nearly tripled for non-scorecard users (22%). Interestingly, 72% of scorecard users think that the overall quality of their strategy is strong, compared to 61% generally. We can infer that scorecard users are generally better at integrating the strategy management process than others.

But agility is key, and it is clearly absent in most organisations. According to the study, 57% of executives believe a lack of clarity in communication, accountability and responsibility inhibits successful execution, while 59% of executives believe poor information sharing between individuals and teams is responsible for inadequate strategy execution. A great deal of value is lost in the "hand-offs" – interplay between parts of the business – both for the customer and the company. To succeed going forward organisations must figure out how to break out of the silo stranglehold and shape new strategy-focused cultures.

What to change tomorrow

Break your current paradigm	Open up to innovative opportunities by inviting new profiles to the strategy table (staff, customers, business partners, advisors, etc.)
Shorten your strategy refresh cycle	Establish internal mechanisms to run frequent strategy refreshes (biannually to quarterly depending on the industry speed of change)
Innovate your tools and processes	Consider customer co-creation, design thinking, scenario planning and war gaming (just to name a few) as techniques to strengthen your strategic thinking
Revisit your risk appetite	Challenge the risk level of your strategy and consider the opportunity cost to increase the risk level
Avoid denial	Consider carefully each disruptor and assess opportunities to leverage them to your own advantage
Establish an innovative culture and leadership that challenges the status quo	Implement mechanisms that will promote and reward strategic thinking internally and embed inputs in your strategy refresh process

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Sustain a Cutting-Edge Strategy

In this age of disruption, perhaps the most important part of the strategy management process is "strategic learning." As Professor Roger Martin (author and former Dean of the Rotman School of Management at the University of Toronto) said, "Every model is wrong and every strategy is wrong. Strategy in a way helps you learn what is 'righter.'" Strategies must be constantly challenged by perpetual scanning of the critical external drivers of the strategy/value for customers. Strategy formulation must be seen as more "real time" than "one time." Execution must be less prescribed and more dynamic, with greater empowerment at the front-line and a much better and quicker process for driving insights up the hierarchy. The front line sees the results of strategy each and every day. Senior executives should spend more time thinking about what employees can tell them than and less time on what they must tell employees. There must be an open and objective forum that allows for and encourages "disruptive" ideas, concepts and challenges – adopting the disruptor's mindset. Tools such as war gaming, in which players assume the roles of various stakeholder groups (such as customers, competitors and the media) can be powerful in making this happen.

Above all else, we must finally redefine the customer relationship and place the customer at the heart of the strategy process: when formulating, executing and learning. As Mahatma Gandhi once said, "A customer…is not an interruption of our work, he is the purpose of it. He is not an outsider to our business, he is a part of it." This is the core of customer co-creation and shaping robust strategies in an age of disruption.

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About the Authors

Mathieu Liminana is a manager for Palladium's strategy execution consulting practice, based in Sydney, Australia. Mathieu has worked with numerous organisations over the last 13+ years both in Europe and in Asia-Pacific to unearth and develop growth opportunities and cultivate internal entrepreneurship to transform their enterprises through strategy execution. He has experience in the utilities industry, pharmaceutical industry, manufacturing, governmental services, not-for profit, and other diversified industries, helping his clients meet the challenges of strategy and innovation development and implementation.

Mathieu's main focus has been in strategy formulation and execution with a national and international focus, including a strong emphasis on visioning, opportunity identification and assessment, in many cases to drive fundamental business model transformation and unlock future growth platforms.

Mathieu holds a Masters Degree in Business Management from EDHEC Business School (tier 1) in France. Mathieu is trilingual (English, French and Spanish) and is a dual citizen of France and Australia.

James Creelman is head of Research and Intellectual Property at Palladium. Based in Dubai, James is an experienced consultant, trainer and author in the field of strategy execution (primarily the Balanced Scorecard) and related fields, including enterprise risk management and enterprise performance management. He has provided expert advice to organisations in the Middle East, Europe, North America and Asia-Pacific.

James has held senior positions implementing the Balanced Scorecard at the Ministries of Works of Bahrain and Ashgal (in Qatar). For Ashgal, he led the efforts to build an enterprise risk management framework and methodology, and he was a steering committee member for an extensive customer relationship management programme.

An experienced management author, James is the co-author of the book *Doing More with Less: Measuring, analysing and improving performance in the government and not-for-profit sectors* (2014). He has also authored or co-authored a further 23 books and reports, including *Risk-Based Performance Management: Integrating strategy and risk management* (2013) and *Creating a Balanced Scorecard for a Financial Services Organisation* (2011).

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