

# balancing conviction and flexibility: a roadmap for testing and challenging strategy



by dr marc levy

## Right thinking

Strategy shouldn't be set and forget.

We recommend five bases for more frequently challenging long term strategies and plans.

1. Meetings to test and adapt the strategy
2. Analysis of 'weak signals' and 'forces at work'
3. Introducing benchmark data from similar internal or external organisations
4. Heretical thinking
5. A more serious commitment to estimating the longitudinal impact of strategic initiatives

## If your organisation created a new three to five year strategy or strategic plan last year, what do you do this year? And next?

While change has different velocities in different sectors (Courtney et al 1997), in most instances it makes little sense to lock into a static long-term strategy and simply execute on it via business planning every year. Conviction is good, but blind faith is not, at least in this realm.

So how should we augment conviction with flexibility? How can we challenge and test the robustness of our strategies and plans to changes in the external and internal environments on a more continuous basis?

We recommend five bases for challenging long term strategies and plans.

## 1. Meetings to test and adapt the strategy

In *Execution Premium* (2008), Robert Kaplan and David Norton argue that periodic strategy review meetings, to test and adapt the strategy, are central to robust strategy implementation. We advise clients to hold executive team strategy review meetings at least quarterly centring on four elements: discussion by exception of performance against quantitative targets set during strategic planning; progress with strategic initiatives (again by exception); a focus on one or two of the strategic initiatives to expose the executive team to latest developments; and a review of the meeting process by a member of the executive team (a different one each time).

These meetings are typically held at least quarterly. They provide an opportunity for the executive team to systematically test and challenge assumptions supporting targets that are not being met or strategic initiatives that are off track. In doing so, senior teams can initiate course corrections and opportunities to improve the efficacy of their strategic priorities and how they measure success; they can also identify more fundamental issues for resolution relating to, for example, over- (or under-) reaching with target setting or capability gaps.

## 2. Analysis of 'weak signals' and 'forces at work'

We encourage our clients to periodically test the robustness of their strategies to recent developments in their organisations' external environments. In financial services, for example, the conduct of competition, the regulatory framework, consumer behaviour and technology, are all highly fluid, and it is necessary for organisations to do their best to ensure that they are positioned to be successful in the context of a range of possible eventualities.

Organisations should obviously keep a weather eye on the 'forces at work', the major trends that are or might impact their industry and organisation. They

should also monitor 'weak signals', less discernible shifts that might predict trends that become more significant over time. For our healthcare clients for example, certain public policy discourses or subtle changes in prescribing patterns, might give rise to concern about the validity of a strategy's growth forecasts.

## 3. Introducing benchmark data from similar internal or external organisations

There's nothing like benchmark data to gain the attention of competitive executives. We've seen benchmark data stimulate energetic discussions about both operational performance and strategy in many client organisations.

The following questions, which benchmark an organisation to analogues, can provoke executive team conversations that test and challenge long term strategies and plans. Where are competitors' placing their bets? Why is our rival consistently growing faster than us/more profitable than us? What are our best divisions getting right that enables them to consistently outperform?

## 4. Heretical thinking

One of Chris Bradley and colleagues' ten tests of a good strategy (2011) is: Is your strategy contaminated by bias? He outlines various biases that might compromise strategy development from the behavioural economics literature – overoptimism, anchoring, loss aversion, etc.

In our work, we've found that exposing an executive team to a well-chosen heretical thinker, or thinking, can provide a helpful perturbation in their strategy dialogues. This might be a well-chosen article in the strategy offsite pre-reading pack or an external speaker that explains a potentially disruptive technology or sets out a thoughtful argument about a different way an industry might evolve. It might also be some new data that challenges taken for granted assumptions or a different perspective from a senior executive in a regional or global role on the organisation's position and prospects.

## 5. A more serious commitment to estimating the longitudinal impact of strategic initiatives

It is unusually common for organisations to fail to make the link between action and impact. Many organisations we've seen, set long term measures and corresponding targets, and independently develop strategic initiatives, without making a sufficiently methodical connection between the two.

Organisations that do develop multi-year strategic initiative P&Ls, and link them to the financial targets and forecasts set during strategy development, are better equipped to determine whether their strategies are on track to deliver to expectations. They have a more systematic basis for testing and challenging whether initiatives will achieve the desired impacts over the course of a strategy – forecasting and reforecasting sees to this.

An executive can always argue that their strategic initiative has impacts more far reaching than future revenues and expenses; but in most cases, success will ultimately be judged with reference to basic financial impacts.

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These five bases for challenging long term strategies and plans can all be employed on an ongoing basis or during annual strategy and planning processes. Of course, organisations needn't, and shouldn't, wait for an annual process to revisit strategies and strategic plans, but they frequently do. Either way, testing the strategy and making necessary adjustments is an important and necessary competency in the face of incessant change impacting most industries.

### References

- Bradley C, Hirt M & Smit S (2011) 'Have you tested your strategy lately', *McKinsey Quarterly*, January
- Courtney D, Kirkland J & Viguerie P (1997) Strategy under uncertainty, *Harvard Business Review*, November-December
- Kaplan R & Norton D (2008) *Execution Premium: Linking Strategy to Operations for Competitive Advantage*, Harvard Business School Publishing, Boston, Massachusetts

# want to know more?

If you would like Right Lane to help you test and challenge your strategy contact **Dr Marc Levy:**

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We are an ethical consulting firm with a strong belief in the work we do, and with a passion to give back to the broader community with the skills and expertise available within our walls.

Right Lane was established in 1997 to help private, not for profit and public sector clients to clarify and accelerate their future plans. Over the past 17 years, we have helped the executive teams and boards of more than 100 organisations to define and adapt their direction and strategy, identify and clarify their priorities, align their efforts with their aspirations, get their major projects started and finished, and measure and improve their performance.

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- Developing and managing strategy and planning processes for clients
- Leading strategic growth projects, such as pre-merger analysis, pricing, new product feasibility, marketing expenditure effectiveness and growth options evaluation
- Implementing strategy through aligning and engaging the organisation, and measuring and monitoring performance
- Assisting clients with governance projects – from board culture and capabilities to board appraisals and reviews

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