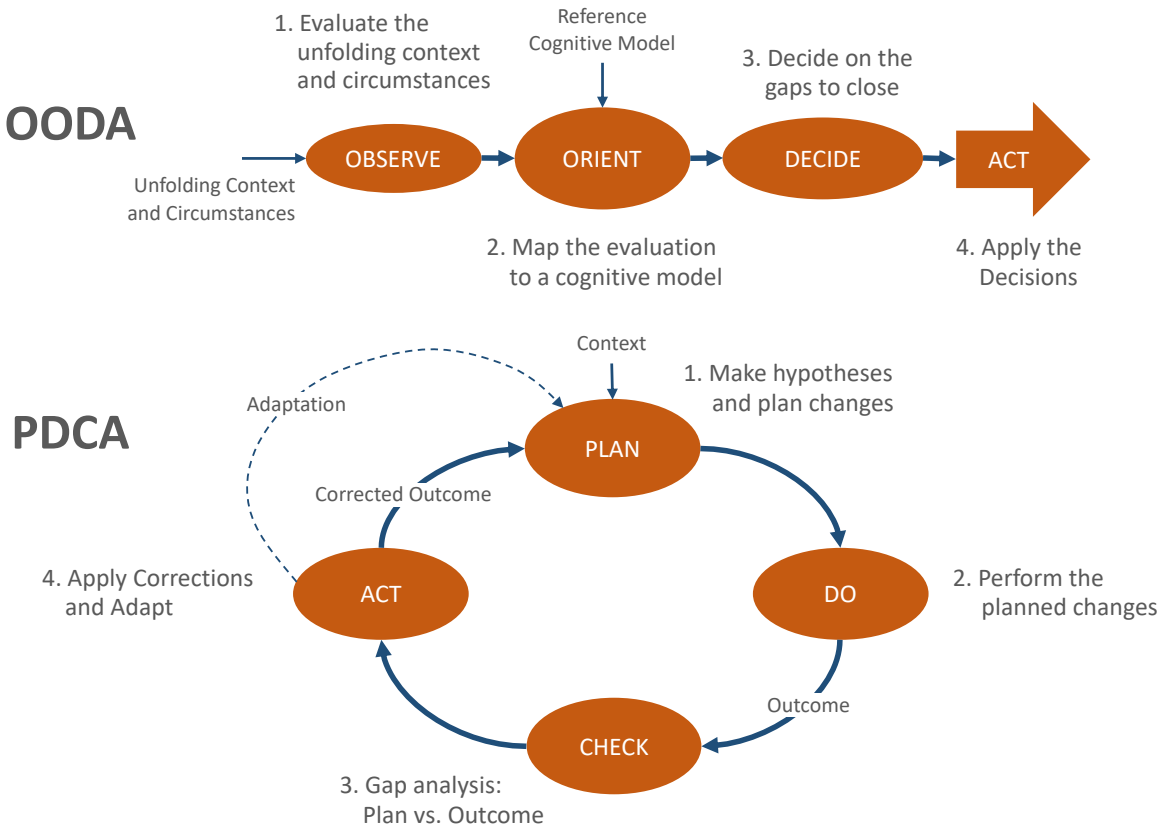
Kick-off Session

The Strategy Cycle

First of all, a little bit of a history about where did the Strategy Cycle came from, or at least showing how it is logically assembled from something fundamental.



We have here two popular loops. Probably, the Plan-Do-Check-Act is the most popular one. It's the Demming Cycle or the Quality Cycle.

The top loop is a actually a decision loop that was created by John Boyd, who was a US Air Force colonal. He was involved in the Korean War and in the Vietnam War, as a fighter pilot. During his later job as a USAF air combat instructor, he got the nickname "Forty Second Boyd" for his standing bet as an instructor pilot that beginning from a position of disadvantage, he could defeat any opposing pilot in air combat maneuvering in less than 40 seconds.

Based on his experience, because obviously he survived those war engagements, he formulated this four-step logic that would allow people in fast-decision environments to make better and quicker decisions.

The four steps are like this. The first one is Observe and it's related to looking at the context and unfolding circumstances and trying to understand what is going and capture as many information as possible.

Then, the second stage is the probably the most important one. John Boy called it the the ”schwerpunkt”, which in German is the ”center of gravity” of the loop. It is about making sense of the information that was collected in the previous stage.

That is done by mapping it against a Reference Cognitive Model that has been built based on the history of similar events and similar contexts that have been encountered. It allows practically to recognize some patterns and, by doing this, the decision can be taken quicker and without logical malfunction or misinterpretation of the observed context.

The result from the Orient stage is actually an input into the Decide stage, where a decision is taken based on interpreting the mapping between the observed context and the Reference Cognitive Model. Then, the Act stage translates the decision into action.

So, that's a loop that doesn't seem to be a close loop, but in reality, once you finish the Act stage, you go again into Observe mode and then again in Orient and Decide and Act. So, it's presented typically as an open loop, but in reality, because it is repeated again and again, it's actually a closed loop.

The Plan-Do-Check-Act loop is something that is used when we need to perform some actions based on a plan. There is a context input into the plan on the Plan stage, and then a plan is created, and then it is executed in the Do stage that involes carrying out some planned actions.

The Check phase is looking at the outcome of those actions and comparing it with with the expected results. If there is something that doesn't match expectations, or that is out of the expected range, it becomes subject to some corrections.

The corrections are applied in the Act stage that will generate a corrected outcome, which hopefully is closer to what was expected from the planed actions.

There is another consequence of this. Because the Act stage, repeated again and again as the loop is being repeated again and again, the corrections are actually teaching us what kind of errors are we making, working like a learning process, which improves our capability to develop better plans.

So, that's how the these loops work.

Now, from the Strategy and from the business perspectives, it's interesting how these loops can be combined. That is because the Observe-Orient-Decide-Act is something related to making some decisions.

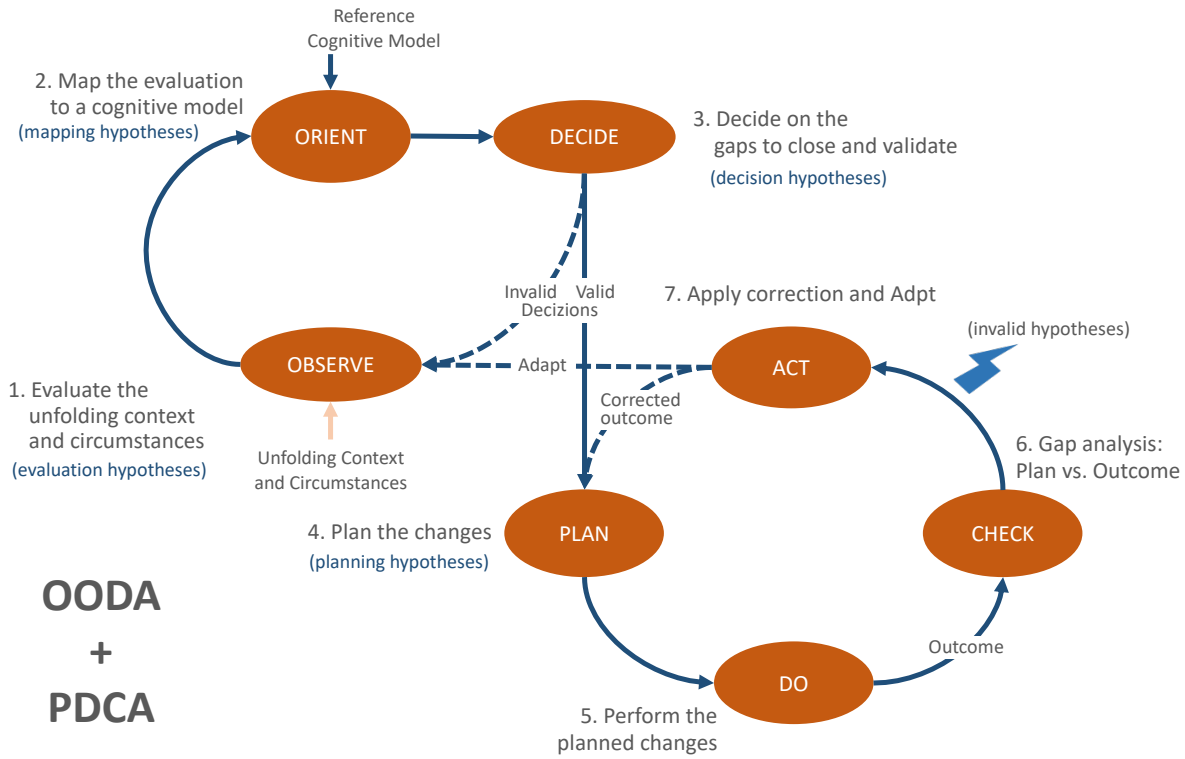
In Strategy, we are talking about obviously longer term decisions than the typical tactical decision that the OODA loop was designed for, but the logic tends to be the same.

The Observe stage looks like some sort of Strategic Analysis, Orient is something that allows us to understand what kind of of choices should we make, and that is a decision about Strategic Choices. Then, we must decide about how do we turn those choices into reality, and Act is actually implementing those choices as effective actions.

The interesting part comes when we assemble the two loops. What we did here was to replace the Act stage from the OODA Loop with a Deming cycle, because when we manage Strategy we are talking about something that requires some planning to implement the Strategy.

It's not something that can be done intuitively, as the changes that result from the Strategy tend to be complex. It is about processes, and competencies, and relationships, and infrastructure, and a variety of other things that might need to be changed in order to implement the Strategy.

And that is better performed if there is a plan for doing all those changes.



So, it's an interesting match because we have described the OODA loop as a closed loop. We see that Observe matches very well the Strategic Analysis, and then we use a Reference Cognitive Model for actually understanding what kind of choices are required, as we understand which are the the Paramount Challenges that require some new choices.

Based on that, the Decide stage is about how do we implement those choices into reality, what Capabilities are required, what Success Factors for our Value Propositions would be needed. Finally, create some sort of high level plan of things that would allow this Strategy to be implemented, for the Strategic Choices to be turned into reality.

And that is fed into an Execution cycle where we implements that Strategy based on a plan, on a set of actions based on the Strategic Initiatives, on the measurement system using the Scorecards.

Furthermore, we are also doing an Adaptation, because the entire construct that we have here is based on hypothesis about the future, on assumptions and hypothesis about the future.

The fact is that some of those hypothesis will turn out to be invalid, so that's the significant role of the Act stage in the PDCA loop, where we would need to identify which hypothesis that we have employed anywhere in all these stages are wrong.

On one hand, we are monitoring them, specifically if they are about some external parameters, some external conditions in the market, or even outside of our industry, and see if they are contradicted by reality.

That's a simple simple part, because we just need to go back to where have we employed those hypothesis, chang the model, the components that depended on those hypothesis, and then propagate those changes through all this cycle, and continue with an adapted Strategy and adapted Strategic Plans that we create in the Plan stage.

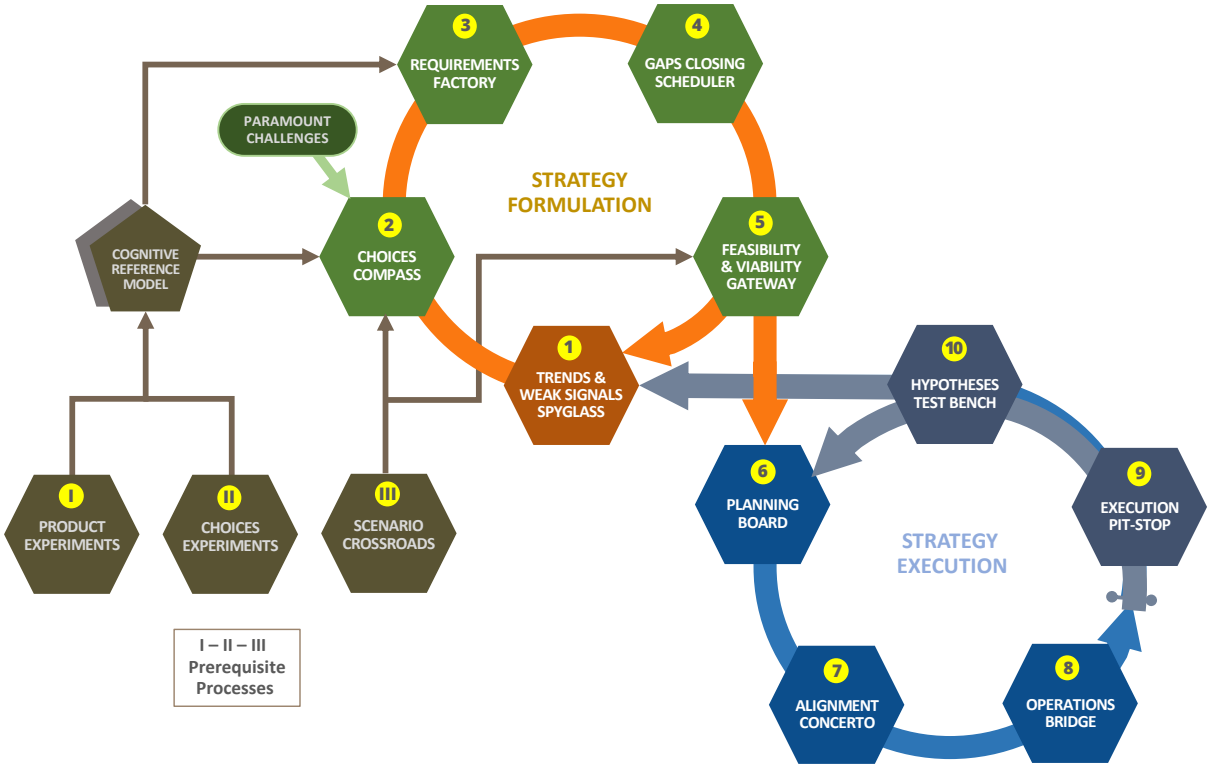
There is also the situation when we only see that there is something happening different from what we expected as an outcome, therefore we need to identify again an invalid hypothesis, or several invalid hypotheses that are the root cause of what we see in the Check stage. In that stage, we typically look at the Scorecards. So, that's the important role of the Act stage, to adapt our Strategy and our Strategic Plans, when needed.

All this is making the two loops fit into each other and turn into a dual-loop Strategy Cycle that allows us to to formulate and then to implement a Strategy based on a Strategic Plan. And executing that Strategic Plan in an adaptive way.

So, that's the story of the dual-loop system and here is a version that is closer to the end result, very specific to managing the Strategy.

We can now better illustrate it with some more specific stages, reflecting the described processes of both loops. The names of the stages are chosen to sugest a real-life objects analogy that can be more intuitively understood.

We have a Spyglass, a Compass, a Factory, a Scheduler, a Gateway, a Board, a Concerto, a Bridge, a Pit-Stop, and a Test Bench. Ten stages of a process workflow.



Strategy Formulation

We start from stage one that is Strategic Analysis, which is trying to create an image of the future that contains Opportunities that we could harvest and Threats against which we should be defending. When we compare those Opportunities and Threats, resulting from the trends that we analyze, with the current Strategy, the question that arises is:

„Okay, is our current Strategy that we have today, which actually brought us to where our business is today, able to cope with this kind of Opportunities and Threats, allowing us to best harvest all those Opportunities and defend against all those Threats?”

If the answer is ”No”, it means that we actually need a new Strategy, and those places where the current Strategy doesn't cope withthe future, as described by the Strategic Analysis, are actually identified as a set of challenges.

So, that's our problem with the current Strategy: It cannot cope with all of those Opportunities and Threats.

Therefore, what we do is to select the Paramount Challenges. We are trying to find here a compromise between the reality, which is complex, and a certain level of simplicity, which allows us to still manage it successfully.

So, we identify some Paramount Challenges and then the question is:

„Okay, now these are the challenges, what would be the Strategic Choices that would allow us to overcome those challenges?”

In doing such analysis we use a Reference Cognitive Model, the same as we have seen to be used in the Orient phase of the OODA loop and, based on that, we make a selection of Strategic Choices, which is actually our future Strategic Positioning along the the next couple of years for our business. Those choices would allow us to harvest the Opportunities and to defend against the Threats that we have anticipated during the Strategic Analysis.

Now, the decisions that we need to take next are about what Capabilities are there required to support those choices. I mean, those choices are some wishes, a set of desires about how would we like to position our business, what kind of markets or customer problems to target and with what kind of of solutions.

That would put us in a good spot for coping with the challenges and overcoming them. Of course harvesting an opportunity is also a challenge.

Now, those wishes are not going to happen overnight, we need to do something to turn them into reality. In general, we're talking about Capabilities, but we'll see that there is also something which is called the Activity System that helps us better identify the Required Capabilities for supporting our choices.

We are talking about choices that might be a combination of existing choices of the Strategy that brought us here with some new choices. It is not necessary for our Strategic Positioning to be a mix of new choices, only. It imay be a combination of choices that already characterize our current Strategic Positioning and some new ones.

So, we look at Capabilities required to support all those choices, and it's very likely that some of those Capabilities we already have, some of those activities we already do, things that we already know how to do, because we've done them before. But then, in some cases, even if we have a Capability, it might be not in the right configuration, at the right maturity level, or anything like this.

The next step of the Strategy Formulation cycle, which is extremely instrumental, it's about understanding what is missing in terms of Capabilities, or what Capabilities that we do possess need to be reconfigured, or upgraded.

So, we're going to have some gaps which are complete gaps, like something that is completely missing, something that we must do, but we never did that before, or others that can be just a matter of improvement, or reconfiguration.

So, those are strategic decisions. First, deciding regarding the Required Capabilities, than deciding about the Strategic Gaps, by comparing what we have with what we're required to have to support the Strategic Choices. Then, we should be able to transform those gaps into some actions, as part of the Strategy Execution cycles, to implement them in reality.

The problem is that all this is based on the hypotheses that we should be able to implement whatever Strategy, whatever changes, whatever Capabilities required, that we should be able to implement them within a certain time frame that we have available. But that's not the case always. Therefore we need to validate our Strategy from the point of view of feasibility, which means that we need to check if the resources required to perform those changes, which translates into some projects that have as outcome changes in processes, competencies, relationships, and so on. But the question is:

”Will we be able to mobilize the financial resources and the human resources when required to perform those projects?”

Another question is:

”Will we be able to cope with the entire change amount ... let's say, it may be a very ambitious Strategy that requires a lot of changes ... are we going to be comfortable with doing that, as we might have never done something like this before in our organization?”

There are always people going to resist those changes, because they are done too fast or they are too significant changes. So, there are a number of constraints that we need to check about whether we can implement our Strategy.

We also need to check at the stage number five if the resulting business models from implementing those changes are going to be viable from the financial, economic point of view, or sustainable over time. That’s because we might actually implement a very nice Strategy and produce something which unfortunately is going to hit the reality of the market and not be something sustainable, or not even viable, and produce profit, and growth.

So, we need to do this kind of of validation before going further.

The question, in some cases is: ”Why haven't we done this kind of validation at each stage and relate to the Theory of Constraints, but what we do here is to push the constraints validation as late as possible, which will allow us to take decision without being constrained every time.

So, we take decision that we believe to be the most appropriate, which are the most appropriate choices, then which are the required capabilities, and then which are the gaps, and only at the end validate them against the constraints. That’s because by doing so we’ll have a combination of freedom of decision along those stages, one, two, three, four, and then not allow the passing through of a Strategy that is not feasible or doesn't produce a a viable output.

Of course, if the validation answer is ”No” at the stage five, we go back, typically on the selection of the Strategic Choices, choosing some less ambitious ones and something that is more feasible in terms of implementing them in reality, within the constraints that we have and within the time frame that's available.

What we can observe is that stages three and four are somehow consequential to the decisions about the choices selections that we make in stage number two.

Then, the stage number five it's a matter of validating if everything can go through from the feasibility and viability point of view.

We are trying to push the constraints to the evaluation of the end-result. If it doesn't comply with the constraints, we're restarting the process and iterate again and again until we we produce a Strategy that complies with the constraints.

That will give us a certain freedom on all the decision points until the Stage 5 that will tell us if we need to go back and make some adjustments and produce a Strategy that goes through the validation.

That's an approach that's um not strictly derived from the Theory of Constraints but it allows us to combine lack of constraints in making decisions with a final constraints based validation.

That's important for for a variety of reasons, one of them being that it allows us to facilitate the highest innovation level and an open-minded thinking about choices, capabilities, and even gaps to be closed, and only then to verify if all those decisions fit within the limits of feasibility and viability of the of the end result after we implement the strategy.

It is also some sort of simplification. We don't complicate each of these stages 1-4 with validations, we just push the constraints validation and the viability validation into one single last stage. We just have a final checkpoint and, if the result is negative, we iterate again, as we are expected to learn what kind of adjustments are we supposed to perform when we saw that some constraints couldn't be met. So we get a certain understanding of what kind of adjustments we should do on any of the decision points that we went through in the Stages 1-4.

Strategy Execution

If everything goes fine at validation, we can move into executing the Strategy, into implementing it. That is done based on a strategic plan. If we could close the gaps that we have identified by tomorrow morning, we would be implementing our strategy by tomorrow morning and will be suddenly repositioned and benefit from harvesting the new opportunities and being defended against the anticipated threats.

Unfortunately, that will never happen, as the capabilities which are required and the the gaps that need to be closed are related to processes, and competencies, and relationship with third parties, and infrastructure, and things which typically take months or yearsto be able to change as required. So, we are talking typically about a multi-annual Strategy.

In doing the planning for this Strategy's implemetation, we could think about a Strategic Plan for the entire multiannual Strategic Horizon. But this has some problems because, first of all, it's very likely that after the first year some of the expected outcomes will not be achieved, therefore we will need to change the plan and there will be probably a lot of changes of the plan along time frame.

Hence, the need for a sequence of annual Strategic Plans, instead.

Moreover, we have a lot of things which are happening on an annual cycle in any type of organization. We have the Budget, we have the operational planning, like sales, and production, and marketing, and so on, which typically are done on one year basis.

So, on top of the fact that that our multiannual planning might be very imperfect and might require a lot of adjustments, this annual cadence of operational planning is pushing us towards using a sequence of one-year execution cycles.

In conclusion, we're going to have a multi-annual Strategy that is implemented through a sequence of consecutive one-year execution cycles, each of them having it its own strategic plan, and then the plan is executed.

So, that's why in each Strategic Plan we actually take a share of the Strategic Gaps that must be closed, sequenced from the very beginning in a logical manner, deciding which gaps should be closed first and which gaps should be closed later.

Next, we allocate one share of Strategic Gaps to be closed in the next execution cycle as an input into Strategic Planning. We then assemble, cluster, or aggregate the Strategic Gaps into Strategic Objectives.

At this point, we enter into something that has been tested many, many times, in thousands of implementation projects, as part of the Kaplan & Norton Strategy Execution framework, which started decades ago as the Balanced Scorecard.

The next stage is about bringing the execution of the Strategic Plan that we've defined at organizational level down to where, in fact, the Strategy gets executed.

That's the individual level, because the people in the organization are those who participate as project team members in performing the Strategic Initiatives used to accomplish the Strategic Objectives and implicitly close the Strategic Gaps.

In order to make them accountable and keep them focused on achieving the outcomes for which those Sstrategic Initiatives have been planned, we need to get from the organizational-level Strategy to something that is called an Individual Scorecard that contains one or more Strategic Objectives and the Strategic Initiatives in which each person who participate in project teams is involved.

Then, we need a system of measurement because we need to check if the expected outcomes are achieved or not. In order to do that, we need to go through an intermediate level which is the functional, or departmental level.

We do that, first of all, by doing what is called ”cascading”, or Vertical Alignment. But that's not enough, because there are interdependencies between the business units, or departments, inside the organization, as internal clients and internal suppliers.

In this case of Strategic Plan’s execution, the internal clients require their internal suppliers to make some changes that are going to support their changes.

So, that's the Alignment part, and it's a little more complex, but I just wanted to highlight that we brought our Strategic Plan to to where it's executed. Therefore, we should start executing it.

But the problem we have before starting plan’s execution is that we have a number of operational plans that are also essential for the Strategy, with some potential negative impact on its execution, in case they're not synchronized with the Strategic Plan.

We are talking about the Budget that needs to provide the funding for the Strategic Initiatives, but also about a feed forward flow of information through which the Budget is informed about the anticipated changes that are part of the Strategic Plan affecting the revenue streams and the structure of costs throughout the business.

The Budget will need to take into consideration what is anticipated to happen in terms of changes resulting from the Strategic Plan.
Something similar happens with the operational plans of Sales, Marketing, Production, Infrastructure development plan, and so on.

Another important operational area is the Continuous Improvement program, using frameworks like Lean, Sig Sigma, which are dealing with improving processes. Now, some of those process improvements might actually be part of the Strategy.

Remember that we talked about some Capabilities that we already have, but not in the right configuration, at the required maturity level, or or something like this, which looks very very much like the the job of Continuous Improvement programs. The Strategic Plan can tell the Continuous Improvement program that it needs to prioritize the improvement of those processes.

So, once that's done there is nothing that can further stop us from starting to execute the sequence of Strategic Initiatives that are part of the Strategic Plans that is aligned at at organizational level.

The next thing that we do is to go into the Demming Cycle’s Check stage that is happening in practice through a number of monthly Strategy Review meetings during which we look at the output and the outcomes of the Strategic Initiatives.

We look if they are what we have expected and remember that we're performing those initiatives for closing some Strategic Gaps and, in consequence, achieving the Strategic Objectives that include them.

So, we look at those outputs and outcomes and if there is something wrong there, something that didn't go as expected, we think about some hypothesis that were not confirmed to be valid.

For instance, there might be something related to the Strategic Initiatives themselves, like assumptions about their scope, or the resources required, or the time frame allocated, or anything like this, and the Project Management people know very well how that happens. Those things will show up in the Scorecards in a way or another, obviously in a negative way.

First, we need to understand if it was something wrong with the Strategic Initiative associated with those KPIs. That's the case we look into those projects and see if there were something wrong with them, anything that can disturb a project from producing the anticipated outcomes.

What we can do is to apply some Corrective Actions. If it's an ongoing project we should change whatever is needed, or if it's a project that that was finished, typically plan a complementary project that would bring the outcome to where it was supposed to be.

Strategy Adaptation

The problem is that that there might be nothing wrong with the Strategic Initiatives, with the projects. There might be something wrong with the hypothesis and assumptions that we have employed when we have defined the Strategic Objectives, or when we have defined the Alignment, or even further into the into the Strategy, when we have identified some Strategic Gaps, or Capabilities required, or even when we have selected the Strategic Choices, or even before that, when we have interpreted the trends, or anything related to the future, in the Strategic Analysis.

So, we had to employ assumptions or hypothesis about the future almost everywhere, because the entire Strategy is about the future.

Therefore, if negative results appear in the Scorecards, our main pulse-sensing mechanism, and if the projects seem to be fine, then we might have been trying to close the wrong gaps, or we closed the gaps, but they were not related to the right Capabilities required, or even if they were related to the right Capabilities, those were not the Capabilities required to support our Strategic Coices, or even the choices might have not been the right ones, and so on.

We are talking about root-cause analysis here and that would allow us to go back step by step upstream in the Strategy Cycle, and identify which is the most probable invalid hypothesis, or there might be several hypotheses, that have led to what we have observed in our Scorecards.

Now, that kind of decision or analysis it's not the same snap-decision as we might take with the projects. We need to typically wait for a month or two, or even three, before deciding to change something in our Strategy, or in our Strategic Plan. We need to be sufficiently confident about that, because if if we change too often it's becoming a very volatile and unstable Strategy or Strategic Plan.

So, we need to have a certain level of certainty about what we're changing and why, and about the invalid hypothesis.

However, that's not the case when we are talking about external environment related hypothesis, related to external parameters, external factors. If we have for instance considered some technology trends, or some customer behavior trends that turned out to be invalid, that is something that we can monitor and we don't need to run any sort of root-cause analysis.

It's simply that we observe what's going on around us, and if we see that there is something wrong, we need to understand that was a hypothesis that we employed to take a decision, and define, identify, or select a certain component of our Strategy model, or of our Strategic Plan model.

We need to replace that hypothesis with a valid one maybe replace one or more components that we have built into our model, and then propagates those changes, because there are a lot of consequential relationships between the stages. We go down to the Strategic Plan and even to Alignment, and even to Operational Integration.

That's the stage number 10. It's a very important stage and it allows us to partially reformulate our strategy, if needed, and also some of the hypothesis might be related to the Strategic Plan. So, this is the Adaptive Strategy and then we make a plan on how to to implement it, again using hypotheses, and then test all those hypothesis in execution.

Finally, we need to understand if there are some issues with some hypotheses, and perform some adaptation based on hypothesis about external factors, external parameters that turned out to be invalid, and adapt our Strategy accordingly.

All the processes described above for both Strategy Formulation and Strategy Execution are illustrated in a complete way by the diagram that we call the Strategy Clockwork, a mechanism that suggests the precision of a clock, but employed for the Strategy Cycle.

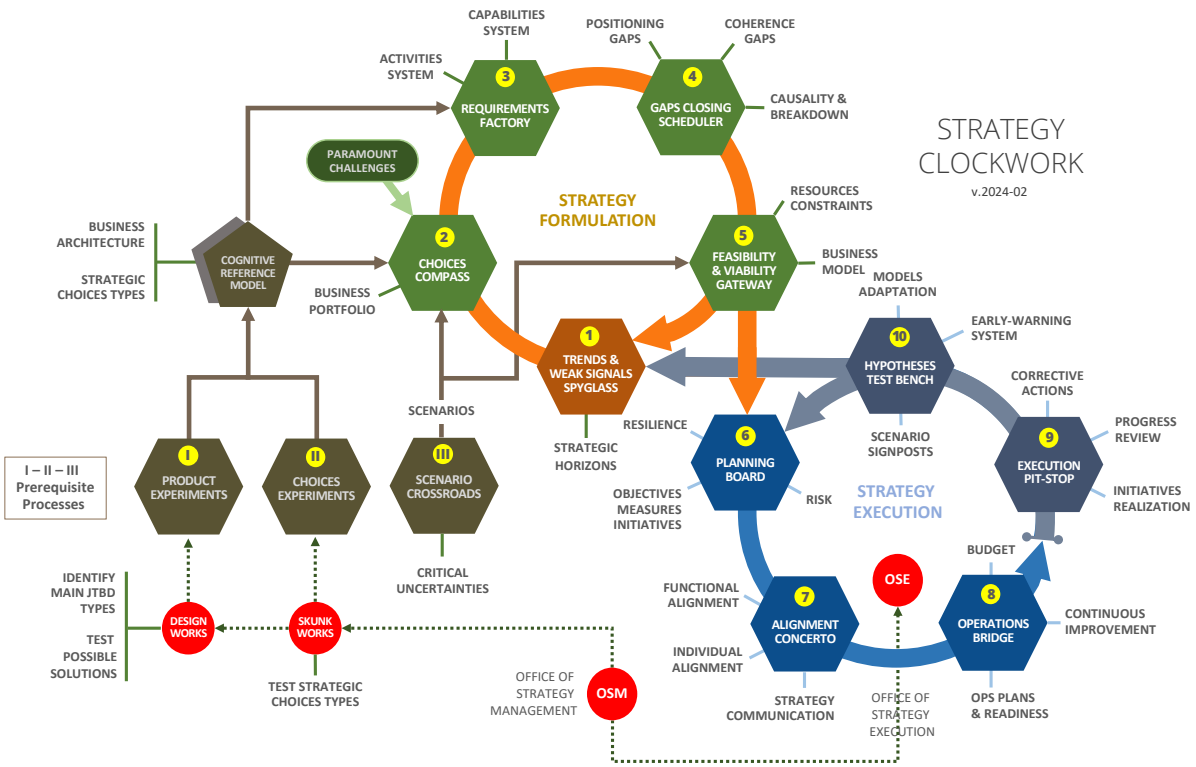
Scenario Planning

Scenario planning is a prerequisite process for the entire strategy cycle. It provides us the context for our Strategy. We define the most plausible alternatives of the future as scenarios. We use the critical uncertainties in defining the Strategic Scenarios and they are called “strategic” because our strategy would need to produce at least acceptable economic outcomes in each of those scenarios.

So, a Strategy that produces excellent results in one scenario, but very bad results in another, is not a good Strategy.

We need to decide about the Strategic Choices, about the Capabilities, and so on, for a Strategy that irrespective of which Scenario will prevail, our Strategy will produce good results or, in the worst case scenario, at least acceptable results. But when one Scenario becomes prevalent, when we will learn that it reflects the unfolding reality, we'll adapt our Strategy to produce better results for that prevailing version of reality.

Okay, so that's a that's a more complete story and that's what we're going to do in this course. The initial image may be a little bit scary or, on the contrary, that's something that may anticipate some interesting details along the way.



This is a sequence of stages and this diagram provides a little more detail about each of them. What we have on the left and upper part is related to Strategy Formulation. The blue part on the right and bottom part is about Strategic Planning and its adaptive execution. So, we build the two models, the Strategy model and the Strategic Plan model used to execute the Strategy and to close the Strategic Gaps that are the instrumental part of the Strategy.

Do you see anything missing from here? Maybe, I don't know, the Mission-Vision-Values, or anything that you might be familiar with, like the SWOT analysis.

The Winning Aspirations, part of Roger Martin's Strategic Choices Cascade, that you might be familiar with, were for some time the starting point in formulating the Strategy.

But then something happened two years ago when Richard Rumelt published his latest book The Crux. He made an extremely compelling argument for building the Strategy from the Paramount Challenges, rather than from some aspirations. According to Rumelt, Strategy must allow us to overcome some Paramount Challenges that we see in the future, the Gnarly Problems, as he called them. I think that this is a more profound type of understanding of what we should build the Strategy upon.

As Rita McGrath has presented very clearly, we typically have more than one Competitive Advantage. We also need to develop a new Competitive Advantage, because we are going to ride a number of Competitive Advantages, as the current one will be able to produce economic results only for so long. But then, something will happen, typically an inflection point in the industry, and bring an end to our current Competitive Advantage.