Does Your Strategy Need a Strategy? Part I

Business environments have become so diverse that companies today need different approaches to strategy in different circumstances, says Martin Reeves, senior partner and managing director of BCG’s Bruce Henderson Institute for strategy, and author of the recently released book, Your Strategy Needs a Strategy. Large companies in particular should deploy separate strategies for different parts of business, and when they do so, research shows they perform better. In Part I of this Knowledge@Wharton interview, Reeves looks at the most common strategies and the biggest traps companies fall into when trying to work them out. Part II will cover connecting strategy to execution, the kind of leadership needed to implement strategies and how large companies can find the right strategic approaches.

An edited transcript of the conversation appears below.

What is Your Strategy Needs a Strategy based upon?

Your Strategy Needs a Strategy is based on roughly the last 10 years of research on strategy that we’ve been doing in the BCG Bruce Henderson Institute. We did a detailed survey of 150 multinationals, in terms of their perceptions of their environments, their elected approaches to strategy and their actual strategizing behaviors.

We also looked at the performance data for all U.S. public companies since 1950 — for patterns. We did in-depth case studies and interviews with CEOs, which you see featured in the book. And we also validated our conclusions by constructing what we call our “universal strategy simulator,” which is a simulation of what sort of strategies work in what sort of environments. That’s the evidence… the book is based on.

What are the most common strategies?

The most well known approach to strategy and implementation is what we call the classical approach. This is the one that we probably learned about in business school and it’s to do with analyzing and planning, and implementing in a disciplined manner, following the plan. This is an approach which works perfectly fine in predictable environments that are not shapeable they’re given. And this style of strategy is perfectly applicable in very predictable industries, for example, the confectionary industry in the book. Demand grows roughly at GDP, relatively stable, relatively planable — so that’s the most common approach to strategy.

The second approach to strategy is what we call the adaptive approach, which works really well in highly unpredictable industries that are also not easily shapeable. A good example of that is software that ambidexterity. They need to master the art of ambidexterity.

And the third conclusion is that we need to modify our concept of leadership to be able to lead and direct and design this mosaic of strategies that applies to companies.

And the last conclusion is that if you do all of those things, there is a demonstrable performance benefit for companies to pocket.

What are the headline conclusions?

The headline conclusions from the book are that business environments are now so diverse that we need different approaches to strategy in different circumstances. And more particularly, the classical style of strategy, analyzing and planning, is still perfectly fine for some situations, but it’s no longer a panacea.

A second conclusion is that large companies especially need to deploy multiple approaches to strategy in different parts of their business. We call that ambidexterity. They need to master the art of ambidexterity.

And the third conclusion is that we need to modify our concept of leadership to be able to lead and direct and design this mosaic of strategies that applies to companies.

And the last conclusion is that if you do all of those things, there is a demonstrable performance benefit for companies to pocket.
— in particular, say, the gaming industry, where the competitive conditions are highly volatile and the technology is constantly changing. The idea here is, since we cannot plan, we use a biological approach. We create variation, we select that which works, we implement that and scale it, and then, we repeat the cycle again and again.

So if you like, strategy — in this case, emerges continuously from experiments....

The third approach to strategy is what we call the visionary approach. Here, conditions — at least in the eyes of the entrepreneur — are predictable and also shapeable. So this is not about participating in an industry, but creating an industry. The approach is to envision a possibility that others have not seen, to then realize that possibility and then to persist and scale that opportunity.

We’ve all heard of entrepreneurs that have done that and we give the example in the book of 23andMe, which is a new genomics testing services company with a novel business concept. I think the big news here is that large corporations are increasingly vulnerable to upstart challenger companies, and therefore, to defend themselves, large corporations also need to master the visionary style, which was probably present at their inception decades ago.

The fourth approach to strategy is probably the most exotic one we deal with — and may not be familiar to everybody — and that is what we call the “shaping approach.” So here, conditions are both shapeable and unpredictable — that sounds like a contradiction. What’s happening here is that not a single company, but a whole ecosystem of companies is collaboratively reshaping an industry — most often with a two-sided marketplace and an ecosystem of many companies collaborating — to create a new space.

A good example of this would be Alibaba or Red Hat or Amazon. These companies have not only deployed a strategy at the level of an individual company, but they’ve created a successful position within a successful ecosystem. The recipe here for thinking about strategy is really very different. It is to influence, to orchestrate the contributions of others in the ecosystem and then to co-evolve that collaborative system.

The fifth approach to strategy is what we called “renewal.” It’s very common and it applies to those situations where companies have gotten out of step with their competitive environment, and their competitive or financial performance is suffering. We found that this is a very big bet for companies. Seventy-five percent of renewal exercises fail and the difference between failure and success in NPV (net present value) terms is roughly the enterprise value of the company. So a very big, risky bet.

The way to think about renewal strategy is firstly, to anticipate, because the sooner you enter this exercise, the more successful you’re likely to be. Secondly, is to think about economizing. It’s necessary to free up resources, but not only for the purposes of financial viability, but also to fund the journey back to growth. And the third stage critically is growth and innovation. The company cannot cut its way to success, it needs to fund the journey back to growth and innovation. There are many examples of this. Amex ... did this very well during the recent financial crisis and pivoted very quickly back to growth and innovation.

What is the biggest mistake companies make with strategy?

We deal with tricks and traps in the book and there are some fairly prominent ones. When we looked at how companies perceived their environments and the strategies that they choose we found that there was a very human bias towards perceiving business environments as being more predictable and more controllable than they actually are. It’s a comforting thing for people to believe that they can control and predict their surroundings, and sometimes it’s the case and sometimes it’s not the case.

The second big trap is to be stuck in one way of doing strategy — most often, the classical way of doing strategy — analyze, plan, execute. That’s not a bad way of doing strategy under the right circumstances, but if you have a very fast-moving part of your business, one where the rate of technology change is very high, for example, then it’s totally inappropriate.

In particular, there are a couple of capabilities that large corporations need to create to avail themselves of
these other approaches to strategy. One of them is the adaptive capability, the ability to undertake disciplined experimentation. Another one is the shaping capability, the ability not just to participate in their environments, but actually to shape them to their advantage. And the third one is the capability of ambidexterity, which is the ability to run different approaches to strategy in different parts of the organization.

So let me just expand on some of those capabilities. A company building an adaptive capability will build a process for experimentation. They will build metrics for measuring the effectiveness and the speed and the return on investment from their experimentation. They’ll be empowering their employees to take risks and to experiment locally in the business.

The second capability of large companies to build is the shaping capability, and this is essentially an obsession with what’s going on outside of the company. What’s new in technology, what’s new with customers, what’s new with disruptive mavericks on the edge of the industry, what’s new with regulation? Typically, large companies are very introverted, they mainly think about what’s going on inside the company. But the strategic plan of a shaping company consists in large part a very deep understanding of what’s going on outside the company.

The third key capability for large companies to build is that of ambidexterity, which means to run different types of strategy in different parts of the company. So a good example might be the digital strategy in China, a very fast-growing environment, a very fast-moving industry, will likely be either a shaping approach or an adaptive approach — it will be a very dynamic approach to strategy. Whereas, for example, a more stable business and a more slow-growing market, let’s say the printing industry, will typically be more classical in nature.

How do you do that? Well, the book deals with the four ways of actually achieving this. One way is by separation, the most common way, which is [where] we simply have separate business units that are allowed to have different cultures, different ways of measuring things, different goals, different performance contracts.

The second way is switching. When products progress very rapidly in their lifecycle, it may not be expedient to actually separate the exploratory from the exploitative. And therefore, we need what we call a switching strategy, which is the same group of people who may need to modify and modulate their behaviors over time. And a good example of that is the Corning Glass Company that we deal with in the book.

A third way of getting at ambidexterity is with an internal ecosystem, and we deal with the example of Haier in the book, the Chinese white goods manufacturer, that essentially creates an ecosystem of hundreds of small business units that all negotiate with each other to create a very flexible enterprise system.

The last example of an ambidextrous strategy is to create an external ecosystem. How could Apple, a company that had never made a smart phone before, defeat a 60% market share/market leader, Nokia, in a highly technology-intensive, high-fixed cost, global regulated complex industry? Well, the answer is they didn’t. Their multi-hundred company collaborative ecosystem beat Nokia. So you can see the diversity that they needed and approaches to strategy and implementation, if you like, were outsourced to an ecosystem, that’s the fourth approach to ambidexterity.

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iPad game

Your Strategy Needs A Strategy on bcg.perspectives

Martin Reeve’s TED talk
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