

Pathways to Growth – Integrating Implementation into the Strategy Development Process

Introduction

Read almost any book or publication on the subject of strategy and you will learn that the biggest single reason why a strategy does not deliver the expected benefits is not because it was a bad strategy; nor was it because the business did not have enough resources. The main reason is poor strategy implementation.

This paper describes one approach to strategy development that has the aim of implementation firmly embedded in the process from start to finish.

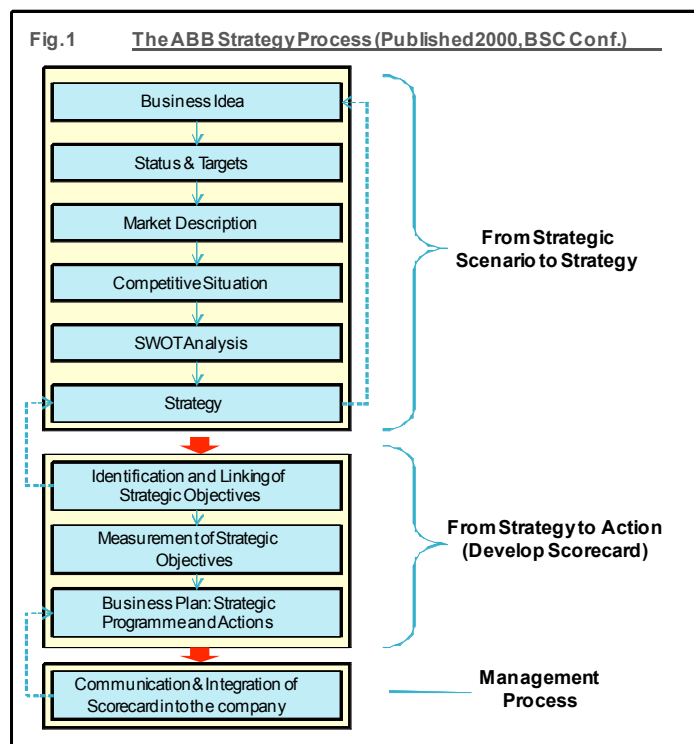
The Traditional Approach to Strategy Development

The process of strategy development is a core part of the curriculum of any MBA. Similarly most management consultancy companies will train new consultants in their own version of a process to develop a business strategy. Figure 1 shows an example of the traditional strategy process.

This is an example of a process that invariably includes common features such as understanding the business as it is today, market analysis, competitor analysis and understanding the competencies and resources of the business.

Another common feature is that strategy implementation is something that is developed *after* the overall strategy has been defined.

Note: Well known tools in strategic analysis such as segmentation, market attractiveness matrices, five forces analyses, SWOT analysis or scenario planning are useful tools to support strategic thinking irrespective of the process steps that are followed.



In many organisations the first part of this process is completed by a relatively small group of people as a method to minimise impact on the day to day running of the business and to allow leaders to focus on their main area of expertise. This approach has potential problems, for example:

- Is there a clear understanding of what the strategy and strategic objectives actually mean? The strategy product may be somewhat generic and abstract; for example ‘Achieve

Technology Leadership’ – what does this mean for the specific organisation and how does it translate to benefits for the customer?

- How do you put SMART objectives in place for multiple parts of the business? To put it another way, how will we know we are on target?
- What level of engagement and commitment do you have from the business leaders, both at the executive and operational levels of the organisation?

One approach to solve problems of this nature is implementation of a Balanced Scorecard¹.

Unfortunately there are two assumptions implicit in using the Balanced Scorecard:

- The executive and operational leaders of the business agree with and are committed to the strategy.
- There is time and resource within the overall strategy and planning process of the business to accommodate a detail process for developing and agreeing SMART objectives and their associated metrics – including a probable recycle on the basic strategy.

In practice if the strategy has been developed by a small group the former of these is unlikely to be true. What will occur is either a recycle on the strategy or leaders will adopt a compliance approach to get through the remainder of the process with minimum effort.

For the second assumption it is likely that there is a predetermined schedule of dates when detail plan information, particularly financial, has to be submitted for review and approval. This is particularly likely in large multi-divisional businesses. Once the numbers have been submitted and the plan and budget for next year are approved it becomes increasingly difficult to get leaders to focus on the development and implementation of the Scorecard – the focus is now on meeting targets for next year.

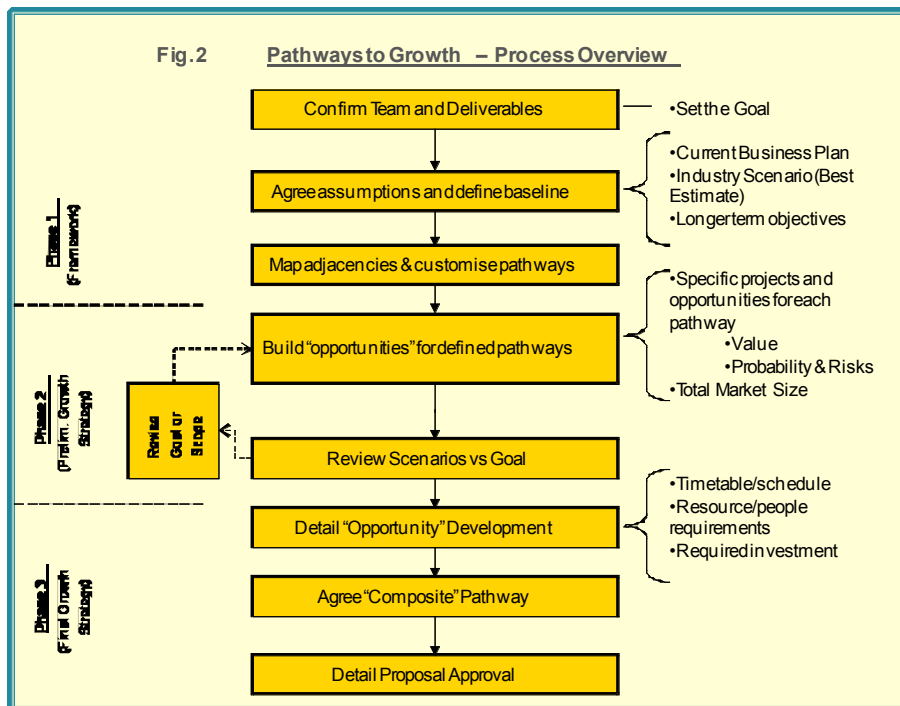
Pathways to Growth – An alternative approach

The Pathways to Growth approach uses tools and concepts common in the traditional strategy process but differs in three important ways:

- The numbers of people involved in the process is in three steps- more involvement at the start, potentially reducing as the strategy synthesises the input, then more again as the developed strategy is embedded in a business plan.
- Implementation is at the heart of the process with a focus on known and defined growth opportunities rather than generic or abstract concepts.
- Behavioural aspects of leading implementation of the strategy are considered.

The flow of the process is illustrated in Figure 2.

¹ Kaplan & Norton, Harvard Business School



The basis for the ‘Pathways to Growth’ Approach

This strategy development process is based on an assembly of ingredients from several places:

- The approach of hypothesis development and testing used by management consultancies such as Bain & Co.
- Focus on growth starting from a strong core of business, most recently promoted by Chris Zook² but also with much earlier reference to the Product/Market development grid by Ansoff³.
- A review of growth strategies demonstrated to have worked in mature industries⁴.
- Behavioural performance management using the concepts proposed by Daniels⁵.

This assembly of sources is used to create a framework for analysis that encourages a team of people to think strategically about growing their business.

Three Phases of Work

The strategy is developed through three phases of work which leads to a proposal for executive management approval. Once approved the strategy is the basis for a detail business plan.

Phase 1 – Establishing the Framework

In this phase the project team defines a framework for subsequent detail analysis.

Confirm Team and Deliverables – the project leader, who will primarily play a facilitator role, works with the business executive leadership to define a project team and to agree the scope and deliverables of the project. The team will be selected to represent the whole business and will

² Profit from the Core; Expanding from the Core; C Zook

³ Product/Market Growth Grid: Igor Ansoff.

⁴ Multiple sources

⁵ Performance Management: Changing Behavior that Drives Organizational Effectiveness; Daniels & Rosen

include a mix of executives, operational leadership, technical specialists and functional specialists. The scope of the project will define aspects such as:

- The initial hypothesis of the growth objective – how is growth to be defined (revenue, ROI, TSR, etc), how much growth is desired, over what time period
- The organisational coverage – the whole business, one or more divisions, range of products and services, etc
- Any pre-determined factors – e.g., limits on geography, acceptability of significant organisational change, etc.

Agree assumptions and define baseline – the project team will agree an underpinning set of assumptions which are to be considered in developing strategic opportunities. Typically these can be underlying assumptions from the existing business plan or it can be useful to use a short scenario planning exercise to identify key medium and longer term industry issues. A preliminary set of assumptions can be used for the initial analysis then alternatives used in sensitivity analysis.

The baseline is a definition of the business as it is today, the current state, including current business plan and forecast financials. This is the point or line from which future growth will be measured.

Map Adjacencies and Customise Pathways - Adjacency mapping is discussed extensively by Zook(2). Starting from this mapping ensures a focus on growth within known market segments and using products and services that the business already has but can grow that capability or at minimum has industry and market knowledge sufficient to minimise risk while at the same time growing the business.

The sources used in Reference (4) have been used to define a generic set of strategies for growth that have worked in both new and mature industries – these are the ‘Pathways to Growth’. Figure 3 presents this generic list of ten pathways.

These pathways are customised for the business being studied to ensure they are meaningful for the project team and suitable to be included in future strategy communication, for example a change in industry dynamics could mean sharing manufacturing capacity with competitors.

Fig. 3	Pathways to Growth
1	Operational Excellence
2	Full potential – Existing Business
3	Change Industry Dynamics
4	Backward Integration
5	Forward Integration
6	Horizontal Integration
7	Niche Focus
8	Price Based Competition
9	Technology Breakthrough
10	Corporate Venturing

This mix of adjacencies and customised pathways, together with a wider team base ensure implementation considerations are embedded from the start of the project.


Phase 2 Developing the Preliminary Growth Strategy

In this phase a draft strategy is developed and tested against the originally set objective for growth. If the test is positive the strategy will progress through Phase 3.

Build Opportunities for defined pathways – Using the parameters defined by market adjacencies and the pathways the project team identifies specific opportunities for growth into those adjacencies. For example an electric utility equipment supplier could identify power station outage services as an adjacency and consider utility outsourcing as a form of vertical integration as the pathway. See also fig. 4

Review Scenarios c.f. Growth objectives. Recycle if required – The identified opportunities for growth are summed and evaluated by comparison to the growth objective

Fig. 4 Building Opportunities in Defined Pathways - Example Database Entry for Northern UK based materials testing business

Pathway	Adjacency	Opportunity	Potential Value	Other Criteria
Horizontal Integration	South UK	Acquisition of Company X	£10M	 Defined by Project Team
	Expanded range of materials	Establish new subsidiary	£15M	
Backward Integration	Testing Equipment	JV with Company Y	£5M	

defined in Phase 1. If the overall growth potential is significantly greater than the objective the project will proceed to Phase 3. If the sum is less than or broadly similar to the defined objective then there is a recycle process, either to change the defined

objective or to the scope of the analysis.

Phase 3 The Final Growth strategy

In this phase the final strategy is fleshed out to enable a detail review of feasibility and risk analysis.

Detail Opportunity Development – adds detail to the identified set of opportunities for each pathway, e.g., required resources (manpower and capital), confirmed potential timescale, and competency development.

Agree Composite Pathway – a set of pathways and associated opportunities are selected which set the overall strategic direction and the opportunities to be pursued in achieving the target growth. This selected set of pathways and opportunities will be internally consistent and will ideally have a synergistic effect. Opportunities and pathways with lower probability of success or higher risk will be eliminated.

If required strategic analysis tools, e.g., a market attractiveness/competitive position matrix, can be used to assist in defining target market sectors or geography.

Detail Proposal Approval – the final step of strategy development. The business CEO and leadership team accept the strategy and it moves forward as the basis for budgeting and detailed business planning.

Behavioural Considerations

During this process several factors build awareness and commitment to the developed strategy.

- Expanded Team – ensures a greater involvement of those who implement strategy also making the strategy⁶.
- Defined current and adjacent market sectors are known and understood by employees
- Defined opportunities are developed within business units and then brought back to the project team on behalf of a business unit or special group, again widening the group of people involved in the process.
- Opportunities may well have been previously identified or ‘sat on the shelf’ waiting for evaluation – thus potentially addressing organisational frustration.
- Communication of the finally agreed strategy will be confirming and building on existing knowledge – not starting from zero.

Overall the final strategy has a good start on the road towards implementation. A parallel stream of work is useful to build momentum. This focuses on understanding the current record of the business in strategy implementation and identifying behavioural aspects where this can be improved.

For example a desired behaviour may be that the CEO and executive team regularly discuss and reinforce the importance of strategy implementation but in practice monthly meetings and published reports focus only on immediate issues and meeting the annual budget. Both formal and informal mechanisms can be established to reinforce the desired behaviour, for example strategy monitoring, team and personal performance objectives, meeting in rooms designed and decorated to reinforce the need to act in alignment with the strategy, including strategic projects in reports or communications.

Next Steps for Implementation

The developed strategy proposal will include specific data on target opportunities, probability of success, required resources and associated financial information. This will be the basis for:

- Detail business plans
- Developing Business Unit, geographic or product line or functional plans
- Agreeing both Business and personal objectives to be used in performance management

This process has been used to develop strategies for manufacturing, service and consultancy business and to deliver strategies for sustained or transformational growth.

⁶ Beinhocker & Kaplan, McKinsey Quarterly 2002 special edition