

Big Lie of Strategic Planning

Idea In Short

Strategic planning is not strategy. It comforts executives with spreadsheets and forecasts but rarely creates competitive advantage. Real strategy requires trade-offs, placing bets and accepting discomfort. Treat strategy as a portfolio of call options, not a 300-page binder.

A Provocative Title

Roger Martin, former Dean of the Rotman School of Management at the University of Toronto, wrote an article with a provocative title. Big Lie. Hard to get past those two words. The article challenges how executives approach strategy in the face of uncertainty. 1

Martin starts with the seemingly simple point that strategy is about the future. Then he reminds us the future is unpredictable. The global economy demonstrated this truth vividly. How do executives respond to uncertainty? With strategic planning.

Martin observed that the natural reaction is to make the challenge less daunting. Executives turn it into a problem solvable with tried and tested tools. The plan is supported with detailed spreadsheets projecting costs and revenue far into the future. Everyone feels less scared.

Strategic Planning Is Common

Most organizations are better off with an annual operating plan and budget than without one. Strategic plans have a purpose, but that purpose is not strategy.

The planning process looks similar across companies. It is a formulaic exercise of macro, top-down economic research on the business cycle, end-user demand and competitive dynamics. Then comes micro, bottom-up revenue forecasts from sales and cost estimates from finance. In simple terms, it is a collective best guess of the next 12 months.

The intention is noble. Gather facts and forecasts, then roll them into a longer-term plan.

The process lets business units see each other's plans, coordinates corporate strategy and creates budgets for capital expenditure, operating expenditure and recruiting. It sets revenue and profitability targets driving executive bonuses. Finally, it gives executives comfort about the future.

Not a Lot of Strategy

Strategy creates a set of self-reinforcing activities that build sustainable competitive advantage. It creates massive value for customers and captures some of that profit. It builds an economic moat through trade-offs. You cannot copy-cat your way to success.

Potential questions reveal whether strategy is real. What is our strategy, and can employees articulate it? What is our strategic positioning versus our top three rivals? What indicators do we track, including leading indicators? How well do we know customer preferences and whether they are changing? Can a new entrant offer less for less and take our price-sensitive customers? What should we stop doing?

If your strategic planning sessions have that rigor, bravo. Usually, they do not. Instead, executives reiterate anecdotes about competitors and customers. Martin called it a truly terrible way to make strategy. It may cope with fear of the unknown, but fear and discomfort are essential to strategy making. If you are entirely comfortable with your strategy, it probably is not very good.

The SWOT Problem

The SWOT analysis, a two-by-two grid of Strengths, Weaknesses, Opportunities and Threats, admits to being overused. It is typically created ad hoc during a workshop with limited rigor and less follow-through. There is little push-back among participants. It resembles a choir rather than an idea fight club.

A better approach digs into the SWOT. Ask about the EBITDA implications of each threat or opportunity. Identify the owner of each issue. Determine how each strength feeds competitive advantage and whether it constitutes an economic moat. Clarify whether a weakness affects the entire corporation or a single product line. Most importantly, decide what you will not do.

Incremental and Sycophantic

Human nature makes executives risk-averse. It is easy and lazy to build off last year's plan. People tend to think next year will resemble this year. Martin noted that choosing a strategy entails decisions that explicitly cut off possibilities. An executive may fear getting those decisions wrong will wreck a career.

The default choice becomes a series of spreadsheet templates building off calcified assumptions. In defense of companies taking this copy-and-paste plus 3 percent approach, the organizational ledger and cost centers are set up this way. For a massively large corporation, how else do you herd the cats? Some industries like utilities and insurance are steady. Wall Street unrealistically expects smooth earnings.

Martin observed that strategists and consultants are paid to bridge cross-functional mess and get to yes. They should also build expertise, relational equity and courage to push chief executives to think deeper and act bravely. Strategy should focus on the customer and ask two questions. Where to compete, meaning corporate strategy and which customers? How to win, meaning business unit strategy and how to create great value.

Internal Negotiations Disguised as Strategy

Ask anyone running strategic planning about the process. They will describe multiple rounds of internal negotiations on cost allocations, sales targets and bonuses. Too often, the process is less about winning in the market and more about organizing internal departments and getting alignment.

Strategy Involves a Bet

Martin, formerly at Monitor Group which Deloitte acquired, argues that strategy is about placing a bet. It is not about achieving perfect spreadsheet nirvana. At its best, strategy shortens the odds of a company's bets. Managers must internalize that fact to avoid intimidation. Boards and regulators should reinforce rather than undermine the notion that strategy involves a bet. 2

We live in a volatile, uncertain, complex and ambiguous world. Strategy will be imperfect because it is strategy, not a plan. Thinking of strategy as call options lets you invest a little

here and there, then wait and see. If the strategy starts to bud, invest more. If it starts to die, reassess and cut bait.

Discovery-Driven Planning

Rita Gunther McGrath of Columbia University wrote about discovery-driven strategic planning. The idea mirrors the call-options approach. Instead of producing a 300-page presentation nobody references during the year, simplify it. Make it easy to consult and marginally fund the ideas that work. Test, test and test again. Jim Collins would approve. ³

Strategy is about making choices and trade-offs. Planning is about coordination and comfort. The best executives understand the difference and build processes that serve both purposes without confusing them. They place bets, accept discomfort and adapt as reality unfolds. That is the opposite of a big lie.

- ¹Harvard Business Review: The Big Lie of Strategic Planning by Roger Martin
- ²Bain and Company: Five Ways the Best Companies Close the Strategy-Execution Gap
- ³Harvard Business Review: A Refresher on Discovery-Driven Planning

Summary

Strategic planning reduces fear but is not strategy. Real strategy involves trade-offs, bets and discomfort. Simplify the process, fund ideas incrementally and treat strategy as call options. If something works, invest more. If it dies, cut bait and move on.