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The Building Blocks of Strategy

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The Building Blocks of Strategy

Adapted from Manager's Toolkit: The 13 Skills Managers Need to Succeed (Harvard Business School Press, 2004)

If you haven't had a great deal of experience with formulating a strategy for your business or unit, you're in good company. It's not an everyday activity. Some firms coast along for years with the same strategy and address that strategy only when it is obviously obsolete.

Even then, many turn to strategy consultants to do the job. Strategic thinking is not a core managerial competence at most companies, says Harvard Business School professor Clayton Christensen. "Executives hone their management capabilities by tackling problems over and over again," he writes in "Making Strategy: Learning by Doing" (*Harvard Business Review*, November–December 1997). "Changing strategy, however, is not usually a task that managers face repeatedly. Once companies have found a strategy that works, they want to use it, not change it. Consequently, most management teams do not develop a competence in strategic thinking."

So if you are not highly practiced at formulating strategy—or you want to give a helping hand to someone on your team who is tackling strategy for the first time—here are steps to follow. They involve looking both outside and inside the organization, since the market to be served is outside the organization and the capabilities for making the strategy work are within it.

1. Look outside to identify threats and opportunities

At the highest level, strategy is concerned with the external market and how the firm's resources should be allocated to create an exploitable advantage. There are always threats: new entrants, demographic changes, suppliers who might cut you off, substitute products that could undermine your business, and macro-economic trends that may reduce your customers' ability to pay.

The business may be threatened by a competitor that can produce the same quality goods at a much lower price—or a much better product at the same price.

A strategy must be able to cope with these threats. The outer environment also harbors opportunities: a new-to-the-world technology, an unserved customer base, and so forth.

Thus, the first job of strategists is to scan the outer environment for threats and opportunities. Here's a proven approach: Form a team of executives, a department manager, and individuals with special insights. The team's job is to identify the core threats and opportunities. Avoid having anyone

on the team who appears complacent or wedded to the status quo.

Gather the views of customers, suppliers, and industry experts. These outside views can be powerful.

Some firms, particularly those in technological fields, enlist teams of scientists and engineers to look outward to markets, competitors, and technical developments. It's their job to find anything that could threaten a firm's current business or point toward new directions in the industry or market.

2. Look inside at resources, capabilities, and practices

Resources and internal capabilities can constrain your choice of strategy. A strategy to exploit an unserved market in the electronics industry might not be feasible if your firm lacks the necessary financial capital and human know-how.

Likewise, a strategy that would require substantial entrepreneurial behavior on the part of employees, for example, would seem doomed from the beginning if your people practices reward years of service over individual performance.

These internal capabilities—especially the human ones—matter greatly and are too often overlooked by strategists. A strategy can succeed only if it has the backing of the right set of people and other resources; these must be properly aligned with the strategy.

FOUR CRITICAL QUESTIONS

1. What is the economic environment in which we must operate? How is it changing?
2. What are our competencies as an organization? How do these give us an advantage relative to competitors?
3. What resources support or constrain our actions?
4. What opportunities for profitable action lay before us? What are the risks associated with different opportunities and potential courses of action?

3. Consider strategies for addressing threats and opportunities

Christensen has advocated that strategy teams first prioritize the threats and opportunities they find (he calls them “driving forces” of competition), and then discuss each in broad strokes. As you follow this advice when developing strategies that focus on each core threat and opportunity, be sure to do the following:

- Create many alternatives. There is seldom one way to do things. In some cases, the best parts of two different strategies can be combined to make a stronger third strategy.
- Check all facts, and question all assumptions.
- Look for missing information; there is bound to be some. Determine what data you need to better assess a particular strategy. Then get it.
- Vet the leading strategy choices among the wisest heads you know. Doing so will help you avoid “groupthink” within the strategy team.

4. Build a good “fit” among strategy-supporting activities

Michael Porter, the Bishop William Lawrence University Professor at Harvard Business School, has made the point that strategy is more than just a blueprint for winning customers; it is also about combining company activities into a chain whose links are mutually supporting and effective in locking out imitators.

He uses Southwest Airlines to illustrate his notion of “fit.” Southwest’s strategy is based on rapid gate turnaround. Rapid turnaround allows

Southwest to make frequent departures and better utilize its expensive aircraft assets. This, in turn, supports the low-cost, high-convenience proposition it offers customers. Thus, each activity supports the other and the higher goal. That goal, Porter points out, is further supported by other critical activities, which include highly motivated and effective gate personnel and ground crews, a no-meals policy, and no interline baggage

Even the lowest-ranking employees should be able to articulate the goals of the organization and how what they do every day furthers them.

transfers. Those activities make rapid turnarounds possible.

“Southwest’s strategy,” writes Porter, “involves a whole system of activities, not a collection of parts. Its competitive advantage comes from the way its activities fit and reinforce one another.”

5. Create alignment

Once you’ve developed a satisfactory strategy, your job is only half done. Now you have to create alignment between the people and the activities of the organization and its strategy.

Alignment is a condition in which every employee at every level understands the strategy, and understands her role in making the strategy work.

As a manager, your role in creating alignment is twofold:

- **Communicating.** You must help people understand the strategy and how their jobs contribute to it. You want to create a situation in which even the lowest-ranking employees can articulate the goals of the organization and explain how what they do every day furthers them.
- **Coordinating work processes.** You must align people’s activities with the business’s strategic intentions.

Be prepared for change

Create a winning strategy and implement it well, and you might cruise along for years without any problems.

But no strategy is effective forever. Something in the external environment eventually changes—new technology appears, customer needs shift, new competitors emerge—rendering it ineffective. Unfortunately, many management teams cannot recognize when their strategies have become obsolete.

The temporary nature of successful strategy should caution you to continually scan the external environment for threats and new opportunities, as described in Step 1. Does your company do this already? If it doesn’t, who would be the people to conduct this duty?

Strategy formulation, then, is an ongoing requirement of good management. It is, to quote Michael Porter, “a process of perceiving new positions that woo customers from established positions or draw new customers into the market.” This is a process you must permanently embed in your organization. ♦