From big talk to bold moves: Putting teeth into the strategy-planning process

There are several steps executives can take to be more objective about resource allocation, process changes, and long-term goals.

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The typical strategy-planning room is beset by mind-sets, biases, and behaviors that can prompt executives to act against their own best interests when setting performance goals. Business units jockey for resources; the CEO leads far-ranging, often unfocused discussions; and a strategy emerges that confidently projects future growth. Hockey sticks in hand, the strategy team sets the budget, the board approves, and then nothing much happens. All the boldness oozes away; plans for big moves that could significantly improve corporate performance give way to business as usual—which, according to our research, can actually increase the risk of underperformance.

It's been this way for a long time. But we believe there are practical steps business leaders can take to mitigate this dynamic and catalyze big, trajectory-bending moves in their companies. Our research and experience suggest there are eight shifts in both behavior and mind-set that business leaders can make to improve the quality of strategy dialogues, decision-making processes, and, ultimately, business outcomes (see sidebar, "Eight shifts for success in strategy planning").

All eight are focused on getting companies to move away from the status quo; they point to a need for different kinds of interactions and metrics in the strategy room. In this article, we focus on three shifts that may be of particular relevance to chief financial officers who are looking for new ways to think and talk about budgets and resource allocation, risk, and the company's ability to achieve long-range objectives.

A shift from budget inertia to liquid resources

The handover between strategy and execution happens when teams get the resources they need to follow through on the big moves they have planned. To mobilize resources and budgets most effectively, a company needs to maintain a certain level of resource liquidity. And it has to start early—the date the fiscal year begins. That's when serious initiatives to improve productivity should be under way to free up resources for when allocations are decided later in the year. Business leaders must then hold on to those freed-up resources so they will actually be available for reallocation. That requires determination, because as soon as an engineer has time, the R&D organization will have creative new product ideas, and as soon as a productivity program has freed up part of the sales force, the sales organization will identify attractive new business opportunities. Strategy teams, CFOs, and other business heads will need to be incredibly clear about separating the initiatives that free up resources from those that require reinvesting resources, if they hope to be successful in making the big moves they have planned.

US conglomerate Danaher strongly emphasizes resource liquidity and reallocation. Originally a real-estate investment trust, the company now manages a portfolio of science, technology, and manufacturing companies across the life sciences, diagnostics, environmental and applied solutions, and dental industries. To avoid budget inertia, senior management at the company spends half its time reviewing and recutting the portfolio—much like private-equity firms do. The company even has a name for its approach: the Danaher Business System. Under this approach, which is based on the kaizen philosophy of continuous improvement, Danaher has institutionalized the resource liquidity required to chase the best opportunities at any point in time. It systematically identifies investment opportunities, makes operational improvements to free up resources, and builds new capabilities in the businesses it acquires. Over the past decade, the company has dynamically pursued a range of M&A opportunities, organic investments, and divestments—big moves that have helped the company increase economic profits and total returns to shareholders.

To make strides against sandbagging, business leaders need to manage risk and investments at the corporate level.

Other ways to ensure liquidity in resource reallocation include creating an "80 percent–based" budget and placing an opportunity cost on resources that seem, but are not, free. The former is a variant on zero-based budgets, in which you make a certain sliver (say, 20 percent) of the budget contestable every year, so money is forced into a pot that is available for reallocation when the time comes. The latter involves identifying scarce resources—such as shelf space for retailers—and making sure they are measured and managed with the same rigor as conventional financial metrics (such as the sales and gross margins that many retail managers are held accountable for). This can be as simple as shifting to ratios (such as sales per square foot and returns on inventory for a retailer) that encourage managers to cut back on lower-value uses for those resources, thereby freeing them up for other opportunities.

A shift from sandbagging to open risk portfolios

When business units develop strategic plans, they often set targets they can be sure of reaching or exceeding. As senior management aggregates these plans at a corporate level, all these buffers add up to one pretty big sandbag. The mechanism of aggregating business-unit strategies also explains why we see so few big moves proposed at the corporate level: many M&A initiatives and other bold programs are viewed as too risky by individual business-unit heads, so they never make the final list brought into the strategy room.

To make strides against sandbagging, business leaders need to manage risk and investments at the corporate level. In our experience, a key to doing this is replacing one integrated strategy review with three sequential conversations that focus on the core aspects of strategy: first, an improvement plan that frees up resources; second, a growth plan that consumes resources; and third, a risk-management plan that governs the portfolio.

Structuring the discussion in this way triggers a number of changes. People can lay out their growth plans without always having to add caveats about eventualities that could hamper them. The CEO or CFO could ask everyone for growth or improvement plans, possibly insisting on certain levels to make sure everyone is appropriately imaginative and aggressive. Only after managers put their best ideas on the table does the team even begin to discuss risk. By letting business leaders make risk an explicit part of the discussion, you change their perception that their heads alone will be on the block if volatility can't be mitigated. They will share what they know about the risks they may incur rather than hiding them in their plans—or not sharing an initiative at all because they deem the personal risk to be too high.

It can derail even the best strategy when CEOs, CFOs, and other senior executives fail to adjust incentives and metrics to reflect the risks that managers need to take. An Asian telecommunications company tried to make two big moves—emphasize midmarket clients and shift to a more standardized product approach—only to find the effort stalled because of resistance from managers and frontline workers. A subsequent review helped the company understand the kinds of activities that might have helped: changing salespeople's goals, resetting the overall budget to acknowledge the transition from

Eight shifts for success in strategy planning

From annual planning . . . to strategy as a journey
Hold regular, incisive strategy conversations with your team, perhaps as a fixed part of your monthly management-team meeting. Maintain a "live" list of the most important strategic issues, a list of your planned big moves, and a pipeline of initiatives for executing them.

From getting to yes . . . to debating real alternatives
Reframe the strategy discussion as an exercise in making choices rather than making plans. Bring outside perspectives into the strategy-planning room to uncover alternative plans with different risk and investment profiles, and improve conversations about these plans.

From peanut butter . . . to picking your one-in-tens
It is nearly impossible to make big moves if resources are spread thin, like peanut butter, across all businesses and operations. As early as possible, identify those one or two businesses that are poised to break out and feed them the resources they need. Adjust incentives so the team supports the likely winners.

From approving budgets . . . to making big moves
Build a "momentum case" rather than a base case—that is, a holistic view of how profit and loss, the balance sheet, and corporate value will be affected if the company follows market growth, cost development, and pricing dynamics without taking countervailing actions (see "Are your strategy discussions stuck in an echo chamber?," on page 2). In this way, teams can more accurately see just how far they need to go to change the business's trajectory.

From budget inertia . . . to liquid resources
Start freeing up resources as much as a year before your strategy dictates you will need to deploy them. Move to 80 percent–based budgeting and charge managers an opportunity cost for their resources, so they have incentives to free them up.

From sandbagging . . . to open risk portfolios
Rather than conducting an integrated strategy review, hold separate conversations focused on the improvements, growth, and risks inherent in the strategic plan. Make risk-versus-growth decisions at the portfolio level rather than within business units, and adjust incentives and measures to more accurately reflect the risk people are taking.

From "you are your numbers" . . . to a holistic portfolio review
Foster a sense of shared ownership in the company's fortunes: encourage noble failures, and focus on quality of effort. Reflect probabilities of a strategy's success in your incentive structures. In riskier contexts, use team incentives over longer time periods.

From long-range planning . . . to forcing the first step
After identifying big moves, focus on the first steps required and break big moves down into steps that are realistically achievable within a meaningful time frame—for instance, six-month increments. Identify clear operational metrics. Match and mobilize the required resources immediately.

one customer segment to another, and using the reallocated funding to generate a new product-development road map. Business leaders can avoid such stumbles by forcing early, sequential conversations about resources, growth, risk, and their implications for the company's strategy.

A shift from long-range planning to forcing the first step

We see it all the time: big plans that excite leaders with grand visions of outcomes and industry leadership. The problem is that there is no discussion of the actual big moves required to achieve the vision—and, in particular, no discussion of the first step to get the strategy under way. Most managers will listen to the visions, then develop incremental plans that they deem doable. Often, those plans get the company onto a path—but not one that reaches the vision or the full potential of the business.

Planning for that first step is crucial. After identifying big moves, business leaders must break them down into what strategy professor Richard Rumelt calls "proximate objectives"[1]: missions that are realistically achievable within a meaningful time frame—say, six to 12 months. Work back from the destination and set milestones at six-month increments. Then test the plan: Is what you need to do in the first six months actually possible? If the first step isn't doable, the rest of the plan is bunk. One insurance CEO worked on a vision with his team that concluded there would be no paper in the insurance business in ten years. But when he asked for the annual plan, paper consumption in the next year was set to increase. So he asked: "To connect to our vision, would it be viable to be flat in paper next year, and go down in the next?" Of course, the team could not say no. By framing a first-step question, the CEO forced the strategy.

Making these shifts will not be easy; it will take some intervention to jolt the organization into new ways of thinking. One possibility is to create a strategy process that reserves ten days a year for top-team conversations, and then introduce the shifts one meeting at a time. If things go wrong in a meeting, the damage is contained, and business leaders can course-correct for the next conversation. And if they discover, at the end of the ten days, that they have not been able to free up all the resources required, that's OK. They can take the resources they were able to free up by the end of this first planning cycle and allocate them to the highest priorities that emerged from it. Business leaders will have made progress and, more important, their teams will now understand what this new process is all about. That is a first step in its own right—and if a company wants to boost the odds of creating a market-beating strategy, it is probably the most valuable one to take. ■

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[1] See Richard Rumelt, *Good Strategy/Bad Strategy: The Difference and Why It Matters*, first edition, New York, NY: Crown Business, 2011.

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