



Insights into Strategic Effectiveness

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Introduction

Back in 2013, The LEGO Group was in financial chaos, it was losing around €1 million daily and soon faced bankruptcy.

To make matters seem worse, its new CEO Jorgen Vig Knudstorp was only 36 years old, with no previous experience in this role. In contrast and back in 1921, the perfume Chanel 5 was a goose that laid the golden eggs for Coco Chanel. Nobody assumed that a young and inexperienced CEO would revive The LEGO Group, so much so that it would surpass Mattel, Inc. and become the world's largest toy organisation in sales revenue, and that Chanel would lose ownership of her businesses. These two scenarios may not indicate any resemblance. Both protagonists come from different times, personalities, ages, gender, and industry. Yet, like many other relevant stories, they both had a denominator in common that played a pivotal role in how their results turned out: strategy. Except that one had a good strategy and the other had a bad one.

The success of Knudstorp led many scholars to study his magic formula, but there was no magic formula. He simply articulated a good strategy – a soundly formulated and effectively implemented strategy. A good strategy explains how some organisations thrive even in circumstances of uncertainties and chaos. When faced with a seemingly inevitable bankruptcy, a good strategy enables exceptional performance in tumultuous events and adverse circumstances.

Knudstorp's strategy was built on a rigorous thinking process, lots of research, carefully articulated plans with deep analysis, action more than words, and proper reactions. Like the case of Knudstorp, success and salvation are seldom the outcomes of a random process or luck. Nor is the superiority in endowments of resources and skills. Many senior employees were sceptical about Knudstorp. He seemed too young for such a position, but strategy makes no discriminations on anybody if the individual will utilise its ingredients properly: thinking, researching, analysing, planning, acting, and reacting.

The Six Ingredients

A strategy does not change the journey, it only changes the way an organisation intends to travel it. Strategies come with a paradox. On one hand, strategy understands that people face continuous uncertainty and that they cannot fully control or accurately predict significant aspects of the world around them. On the other hand, it rejects the idea that forces outside their control or chance events will fully determine their results. There is something somewhat in the middle. People can partially create the future, change it, or adapt to it.

Strategy is where people want to go and accomplish a goal; and what they need to do to get there and achieve it. Strategy is about moving from one point to another, from where the organisation is, to where it wants to be. However, an effective strategy provides the best and shortest route to desired ends with available means. It may show how to reach the destination and how to improvise when reaching it becomes challenging. Therefore, strategy is about deciding what to do, where to go, how to do it, and when to do so. Thinking, researching, analysing, planning, acting, and reacting to events that emerge along the way, are part and parcel



of an effective strategy. There are four basic questions that one should ask to ensure the right ingredients are in place and have the right amount of dosage:

- What do we want to do?
- Where do we think is possible?
- How do we achieve our goals?
- When should we act or react to the given situation?

The first question establishes what one desires to accomplish or arrive at. Every organisation tends to have an overall purpose. Sometimes, the purpose is quite straightforward and precise. At other times,

the purpose is somewhat ambiguous. There may also be many different opinions and thoughts about what the organisation is for and should do. These opinions may conflict and even compete with one another. Clarification is therefore crucial because it determines the destination or purpose. For this question, some scholars (e.g., Ansoff, 1957; Porter, 1980) developed some interesting theoretical frameworks to guide and help the organisation, such as Porter's Generic Strategy and Ansoff Matrix. But ultimately, the answer to the first question requires a lot of thinking.

The second question introduces some sense of practicality and pragmatism. One will be asked to look at the opportunities in the world contrasted with the resources that the organisation either has or can obtain. Research and analysis are quite prevalent for this question. For this reason, some scholars (e.g., Porter, 1980) tried to conceptualise relevant tools for analysis, such as the SWOT Analysis and Porter's Five Forces of Competition. This question helps to provide the necessary preparations and issue forthcoming warnings, cautiousness, and forecasts for the third question.

The third question focuses on the strategic moves needed to reach the organisation's destination or purpose. It also consists of leadership styles and the organisation's structures and processes. Here, planning is a valuable factor because it helps with the determination and allocation of resources, as well as the implementation and monitoring of such resources. The essence of strategies, such as offensive and defensive, as well as tactics and techniques, come into place.

The fourth and last question emphasises the actions and reactions. This question focuses on the timing and implementation of the previous question. It goes from theory to practice. No journey has a linear process. Many obstacles and incidents arise along the way. This is the difference between theory and practice. It forces the organisation to react accordingly and change its plans if the need arises. The organisation may even change its strategy. Improvisation is, therefore, crucial for success. Flexibility, both in terms of resources and demands, perseverance and grit, are likewise crucial for better improvisation.

Thinking before Planning

As mentioned previously, thinking and planning are two crucial ingredients for an effective strategy. What one should also keep in mind, however, is that strategists should think before they plan. So much so, that thinking must be given priority and treated separately from planning. If the strategy was a recipe, the thinking ingredient should be cooked before the planning one. Strategists who do not take the necessary time to think are just planners. Planning takes time. It is crucial for success because it focuses on the best way of getting things done. The tasks are listed, teams are formed, and complex project charts and checklists are created. However, if organisations start to plan before they think, they may end up with the wrong solution to the right problem. Or better yet, the right solution to the wrong problem.

Nonetheless, many strategists do fail to think before they plan. Time is a common cause. They are too busy planning, organising, and stressing themselves out that no time is left to think thoroughly. Thinking becomes a luxury they wish they had the time for but do not. Some people may argue that thinking is unnecessary. For action-oriented individuals, the thinking seems obvious that doing is more effective than thinking. Bureaucratic environments within the organisation may also reduce the members' motivation to think. Yet, when one thinks too much without action, is also detrimental to an effective strategy. Organisations should keep a balance between thinking, planning, and doing; however, they should keep in mind that thinking is first and foremost the upfront. It can be a make-or-break factor for the strategy.



The Five Basic Tests

If the aforementioned factors are the ingredients for an effective strategy, one should metaphorically taste the food when these six ingredients are cooked together. In other words, leaders need to see if enough thinking resulted in the right direction; if enough research was conducted; if enough analysis was done; if enough planning reached the designed destination; and if enough actions and reactions were properly made. Otherwise, the efforts would go in vain. In her book 'Understanding Michael Porter', author Joan Magretta (2012) claimed that a robust strategy is defined by its ability to pass five basic tests and questions, as illustrated in Figure STR 1.1A.

1. A UNIQUE VALUE PROPOSITION Are you offering distinctive value to a chosen set of customers at the right relative price?
2. A TAILORED VALUE CHAIN Is the best set of activities to deliver <i>your</i> value proposition <i>different</i> from the activities performed by rivals?
3. TRADE-OFFS DIFFERENT FROM RIVALS Are you clear about what you won't do so that you can deliver your kind of value most efficiently and effectively?
4. FIT ACROSS THE VALUE CHAIN Is the value of your activities enhanced by the other activities you perform?
5. CONTINUITY OVER TIME Is there enough stability in the core of your strategy to allow your organization to get good at what it does, to foster tailoring, trade-offs, and fit?

Source: Magretta (2012, pp. 16 - 17)

Figure STR 1.1A – The Five Basic Tests and Questions

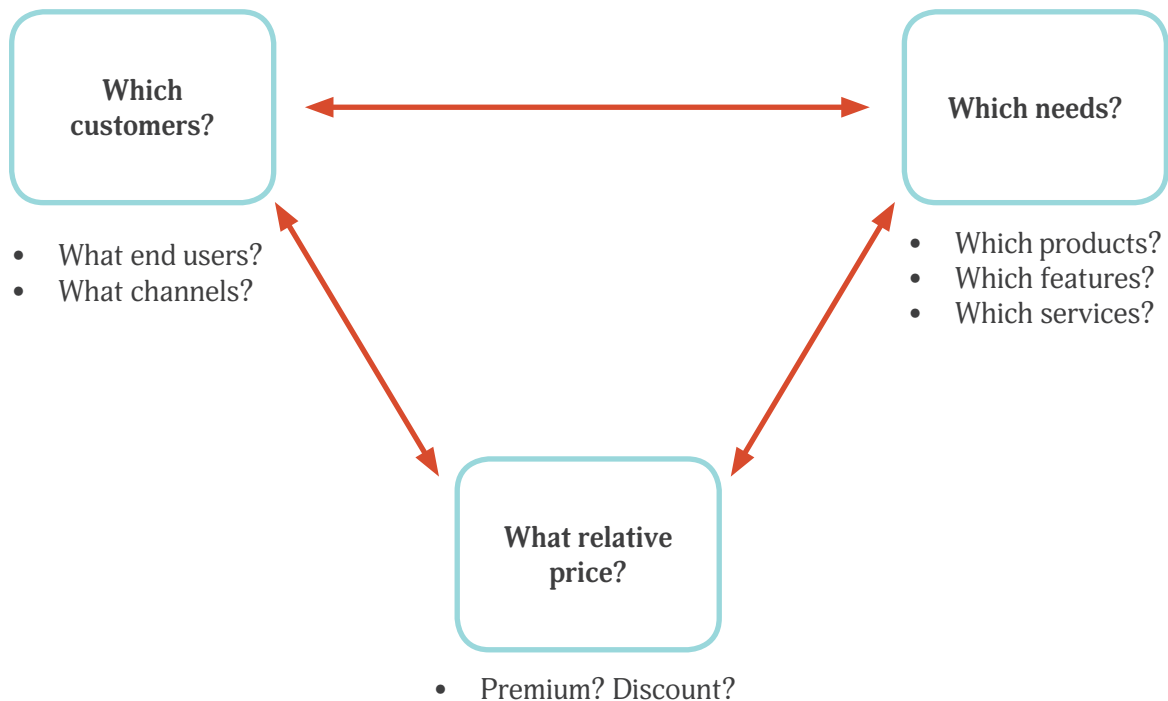
Every destination, regardless of where it is located, has one thing in common: profit maximisation by offering value [product] to its customers who agree to make a purchase [money] in return. This is where these five tests focus on. The first two tests – a unique value proposition and a tailored value chain – are the core of a strategy. Trade-offs, the third test, are the economic linchpin. They make differences in price and cost possible and sustainable. Fit, the fourth test, is the amplifier, which aims to enhance the costs and price differences that are the essence of competitive advantage and make it even harder for rivals to copy the strategy. Continuity is an enabler. All the other elements of strategy – tailoring, trade-offs, fit – take time to develop. Without continuity, organisations are unlikely to develop a competitive advantage in the first place.

Creating Value: The Core

Business is about serving consumers and not about destroying competitors. It is not warfare. The creation of value for the customers is therefore fundamental for any strategy because consumers are served by getting the desired value which is generally in the form of a product. However, competition does inhibit organisations from serving consumers. They need to create value that stakes out a distinctive competitive position – one which stands out from the competitors. Such value needs to be sought by consumers and be affordable enough for them to pay for it and for the organisation to make a profit. The first question therefore is:

- Are you offering distinctive value to a chosen set of customers at the right relative price?

The answer lies in the organisation's value proposition. Porter (1985) addressed three fundamental questions that leaders need to answer regarding value proposition. These questions are illustrated in Figure STR 1.1B. Organisations will choose to answer one of these questions predominantly, and the second two questions will follow suit.



Source: Magretta (2012, p. X)

Figure STR 1.1B – The Three Questions for Value Proposition



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Value Chain: The Tailored

In conjunction with the previous question, one should also keep in mind that value propositions can only be effectively delivered by what scholar Michael Porter (1985) described as Value Chain. This concept leads to the next question:

- Is the best set of activities to deliver your value proposition different from the activities performed by rivals?

A distinctive value proposition will not translate into a meaningful strategy unless the best set of activities to deliver it is different from the activities performed by rivals. Insight into customers' needs is important, but it's not enough. This statement leads to the second test: a tailored value chain. The essence of strategy and competitive advantage lies in the activities, in choosing to perform activities differently, or to perform different activities from those of rivals.

Trade-offs: The Linchpin

The third test of strategy may well be the hardest. Making trade-offs means accepting limits and refusing opportunities. If there is one important takeaway message from the previously discussed questions, is that a strategy is made up of choices. A part of making up the value proposition is choosing what not to do, add, or serve. It is a common misconception that "more is always better." More customers and more products do not necessarily mean more profits. It might lead to more sales, but this would come at the cost of tarnishing the organisation's brand, quality, and other crucial factors.

Trade-offs are the strategic equivalent of the fork in the road metaphor. If the organisation takes one path, it cannot simultaneously take the other. Whether the fork in the road is about the product's features, the configuration of activities in the value chain, Porter's Generic Strategies, or other matters, a trade-off means that in certain circumstances, notably known as zero-sums, one simply cannot have the cake and eat it too. Therefore, the next question is:

- Are you clear about what you won't do so that you can deliver your kind of value most efficiently and effectively?

Besides, those organisations have scarce resources that need to be utilised wisely, and trade-offs arise for several other reasons. First, some product features may be incompatible with each other, in the sense that a feature that meets one's specific need, performs poorly in addressing other needs. Secondly, there may be trade-offs in the activities themselves, in other words, the configuration of activities that best delivers one kind of value cannot equally well deliver another. You can bet that a plant designed to handle small lot sizes and custom products

will be less efficient for large production runs or standard products. Thirdly are the inconsistencies in image or reputation. Can you imagine, for example, the Italian sports car maker Ferrari introducing a minivan? Trade-offs make choices about what not to do, as important as choices of what to do. Deciding which needs to serve, and which products or features to offer, is key to developing a strategy. However, it is just as important to decide which needs not to serve, and which products or features not to offer.

Strategic Fit: The Amplifier

The fourth question has to do with how the activities in the value chain are related to one another. It shows the importance of aligning various functions together. But fit goes beyond simple alignment to amplify a competitive advantage. Good strategies depend on the connection among many things, on making interdependent choices.

The first kind of fit is basic consistency, where each activity in the value chain is aligned with the organisation's value proposition. For example, McDonald's activities are all aligned for speed. Everything is designed to reduce the time and motion required to complete a task. How the food is cooked, and the queue is set, are all designed to make the process fast. The second type of fit occurs when activities complement or reinforce each other. This is real synergy, where the value of each activity is raised by the other. To continue with the example of McDonald's, assessment by mystery shopping focuses on speed. Porter's third type of fit is substitution, where performing one activity makes it possible to eliminate another.

Continuity: The Enabler

The business environment in which an organisation operates is constantly changing. New competitors emerge and existing ones leave. The customers' needs change. Old technologies become obsolete and new ones are introduced. Dealing with change is therefore a crucial effort for the organisation to survive and maintain its success.

But continuity, as conservative as it sounds, is equally important for a strategy to succeed. Strategy is not a stir fry. It is a stew. It takes time for the flavours and textures to develop. The impact of continuity can be found in the Flywheel Effect phenomenon (Collins, 2001). The founder of Alibaba, Jack Ma once said, "If there are nine rabbits on the ground, if you want to catch one, just focus on one. Change your tactics if you need to, but don't change the rabbit." Continuity reinforces the organisation's identity. It builds its brand, reputation, and relationships with its stakeholders. Trial and error, as well as constant efforts, would accumulate into experience and know-how that increases the organisation to become better in what it does. Thus, the last question is:

- Is there enough stability in the core of your strategy to allow your organisation to get good at what it does, to foster tailoring, trade-offs, and fit?



Conclusion

It is important for the organisation to constantly change for survival and to adapt to its changing environment.

After all, strategy is a path, not a fixed point. It is equally important for the organisation not to change too regularly and establish a sense of routine or stability. This dichotomy is synonymous with author Jim Collins and Jerry Porras's (1994) argument of stimulating progress while preserving the core.

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