strategy tools

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This article does not attempt to talk about or review any particular strategy tools, nor does it attempt to create a directory of them. Ample publications that describe strategy tools and their suggested use or critique them already exist. This article will instead try to explain why studies show that, in reality, strategy tools are not widely used as decision-making tools. This may come as a shock to the hundreds of thousands of business school students who graduate annually, but evidence suggests that these tools are largely overlooked in decision processes, which is compelling.

Bain & Company have been gathering facts for over 20 years about the use and performance of management tools to provide managers with an overview of how companies apply these tools and how they are compared across industries and geographic regions. The report contains information for managers to identify and implement the right strategic tools to develop their company's performance. The research identifies the 25 most popular tools (Figure 1) and describes how they are deployed and how successful they are in meeting the organization's objectives.

Research on the use and implementation of strategic management tools shows that top management's view of them is mildly positive with varying opinions on their effectiveness. The implementation of the tools is more efficient when it is part of a wider organizational effort. The tools are only a partial solution to strategic issues. Strategists are advised to champion strategies that are realistic and to use the tools as a means to an end, rather than the focus of the strategic process. Another insight is that it takes time for employees to get used to the methodology of management tools. Switching tools diminishes their impact, as employees have to embark on a new learning curve with each new tool.

Figure 2 effectively demonstrates how the popularity of tools shifts over the years. Strategic Planning, Customer Relationship Management, and Employee Engagement Surveys feature first together in the latest survey. Benchmarking, Mission, and Visions Statements moved down the list, indicating a diminishing trend.

Executives are facing new challenges in the light of the contradictory forces of globalization and economic downturn, and are searching for the right tools to address these challenges. There is added pressure on strategists to be more knowledgeable on the choice, methodology, and implementation of the right tools. In order to use the tools effectively, executives need to be aware of the underlying strength and limitations of each tool and to be able to introduce the right analytical mechanisms at the appropriate time into the organization.

Given that business schools have been graduating hundreds of thousands of students a year for decades, it might be assumed that senior management of most companies of any size are people with an understanding of the tools, and with the capability to employ them effectively. However, evidence suggests that they do not use the tools to the extent that might be expected. Senior directors make limited use of basic models such as strengths, weaknesses, opportunities and threats (SWOT) analysis, or do not use any strategic tools at all, even though they are trained and conversant in the techniques available. The reason given is that the tools lack rigor and are too general.

If rigor is one problem, another may be relevance. In an increasingly complex and dynamic business environment, Michael G. Jacobides argues that many tools are of limited use as they simplify reality by thin slicing complex dynamic scenarios into two-dimensional snapshots. The method may work in static environment, but would be inaccurate in rapidly changing environments, which is the case in most business situations. The five forces framework used for industry analysis, and value maps and comparative value curves used for blue ocean strategy, are designed to help organizations build a snapshot of their environment. The frameworks do not provide predictions of the action of newcomers that disrupt the status quo and rewrite the industry rules.

The tools assume that companies have accurate information on competitors, the industry, and the greater environment. In reality, there are both limitations of bounded rationality and cognitive inertia. Decisions are made on limited

Wiley Encyclopedia of Management, edited by Professor Sir Cary L Cooper.

Balanced Score Card	Mission and Vision Statements
Benchmarking	Open Innovation
Big Data Analytics	Outsourcing
Business Process Reengineering	Price Optimization Models
Change Management Programs	Satisfaction and Loyalty Management
Complexity Reduction	Scenario and Contingency Planning
Core Competencies	Social Media Programs
Customer Relationship Management	Strategic Alliances
Customer Segmentation	Strategic Planning
Decision Rights Tools	Supply Chain Management
Downsizing	Total Quality Management
Employee Engagement Surveys	Zero-based Budgeting
Mergers and Acquisitions	

Figure 1 Twenty-five most popular tools (adapted from Rigby, 2011).

2013	2010	2008
Strategic Planning*	Benchmarking	Benchmarking
Customer Relationship Management*	Strategic Planning	Strategic Planning
Employee Engagement Surveys* **	Mission and Vision Statements	Mission and Vision Statements
Benchmarking	Customer Relationship Management	Customer Relationship Management
Balance Scorecard	Outsourcing	Outsourcing
Core Competencies	Balance Scorecard	Balance Scorecard
Outsourcing	Customer Segmentation	Change Management Programs
Change Management Programs	Business Process Reengineering	Core Competencies
Supply Chain Management	Core Competencies	Strategic Alliances
Mission and Vision Statements	Mergers and Acquisitions	Customer Segmentation

** Tied in first place*
*** Added in 2013*

Figure 2 Shift in popularity of tools (adapted from Rigby, 2011, 2013).

amounts of information, and the perception of the external environment can lag behind rapidly changing scenarios.

The current commercial environment is characterized by turbulence, unpredictability, and rapid change that is unlikely to slow down. The competitive landscape is being reshaped by technology, regulatory pressures, demographic shifts, and globalization. Industries are shifting and restructuring. Companies are operating in an environment where the behavior of competitors, customers, and suppliers is evolving rapidly.

As Jacobides rightly suggests, strategic management tools tend to simplify reality. When business models have to be reshaped to retain competitive advantage in dynamic environments, traditional tools offer few solutions.

However, do the times in which we live really make tools obsolete? Or is it just that they are misused and are hence seen as more than just "simplifying devices" that are especially designed to aid analysis and strategic thinking?

As one FTSE 100 company's Head of Strategy recently told, "Tools are useful for structuring data and information to enable conversation and discussion. They often provide insights, but they never provide the answers." However, do many strategists expect them to do more?

Strategy tools have recently come in for more intense criticism. Kim Warren, in *The Problem with Strategy*, argues that business leaders do not actually know how to deliver long-term performance, which is what strategic management is all about. He argues that the failure is because they do not have the right tools and skills to improve performance, despite the thousands of articles, books, and strategy courses available on strategic management.

Citing the Bain & Company research mentioned above, Warren observed that the 25 tools are identified by how relevant, topical, and measurable they are to managers. The list is a mix of strategy tools that executives feel they ought to use, such as "growth strategies" and "strategic planning," tools that are perceived as essential such as "mission and vision statements," and a range of activity-based frameworks such as collaborative innovation, outsourcing, knowledge management, and mergers and acquisitions. The list lacks prescriptive tools that guide executives toward the right strategy to pursue. For example, the Balanced Scorecard is a significant step forward from the cumbersome financial ratios used, but it has its limitations. The scorecard does not take into consideration the company's competitive environment and ignores competitors in the analysis. One could argue that the element of competition is measured indirectly through the customer perspective, as customers attribute value to products and services in relation to the offering of rival firms.

Warren suggests that an executive at different levels of the organization may not have the knowledge or the time to laboriously choose the right strategic tools and is prone to follow fads instead. Comparing strategy to finance Warren says that while there are several disciplines, rigorous procedures, and methods in finance, none seem to be present in strategy. The tools in strategy provide a broad-brush approach to describe situations through checklists and frameworks that open up thought processes in management, but fail to prescribe the best course of action. Warren describes strategy as a soft discipline with broad indefinable parameters when compared to finance, which makes it more likely to follow fads. The current fads in industry are customer relationship management and employee engagement, while the popular topics in academia are core competencies and dynamic capabilities.

In defense of his outspoken views on the tools, Warren says he is not alone in being critical of the state of the field of management and refers the reader to McKinsey's 2-year study published in The Strategy Theory Initiative. The research was a thorough review of all the academic literature along with all the consultants' tools they could find. The aim was to identify the most powerful theories and methods for wielding them to benefit clients. The results were inconclusive. There was microeconomics that seemed to help explain how profitability might look in different situations, but told management little about what to do. Game theory, which might help with some particular types of decision in rather idiosyncratic circumstances, is not of much use in most circumstances. There was also a set of tools to do with financial analysis and control: value-chain analysis (a modification of cost ratios and margins) plus value-based management and the balanced scorecard. These frameworks work for keeping operations under control, but do not prescribe a roadmap for strategy. They do not answer the vital questions of what to do, when and how much strategic action is required, or what likely level of sustained growth would lead to competitive performance. The research uncovered subjects that were widely discussed in academic journals, such as the resource-based view and evolutionary theory, which lacked the ability to be applied in practice to organizations. Warren concludes that strategy professionals do not have a tangible science from academia that allows them to develop powerful tools for policy-making. The professional toolkit for strategy has elements that are valid and of value to practitioners. For example, Porter's five forces framework depicts the realistic scenario of customers and supplier's power, new entrants' overcoming market barriers, the intensity of competitive rivalry, and the threat of substitute products. The limitations revolve around the tool's in-built assumptions and the many other industry variables that it leaves out.

In defense of strategic management tools, models, and frameworks, none of them claim to be an overarching solution for decision-making. They provide a mechanism to draw simpler conceptual maps and visual images of complex business situations that are difficult to grasp in their entirety. Economists explained this succinctly when describing the value of econometric models, which share the same pitfalls at strategic tools (with regard to redefined assumptions and the inability to include all possible variables in their analytical framework). Tools and models are like physical road maps, which we use to drive from one city to another. If the map has all the details of the area including geography, topography, and demography, the map would be difficult to read and not of much use. Like road maps, strategic tools reduce the complexity of a chaotic environment and reduce our understanding of it to a smaller set of manageable factors.

So far, we have looked at the issues of rigor, relevance, and how leaders question the scientific grounding of management tools. Are these the real reasons strategy practitioners do not use them effectively? Or, are strategy practitioners just workmen who blame their tools?

The current economic crisis has led many to ask whether the management teams of corporations are serving the interests of business owners, the investors, or their own interests. This is not a simple question as the financial markets are also creating perverse conditions in which consistent growth in short-term profits is demanded at the expense of long-term value creation, benefiting neither the owners, nor the business, but winning short-term stock market speculators.

Another very worrying trend is the reduction in the length of time executives hold their positions on a board. In 1995, departing Chief Executive Officer (CEO)'s from the world's top 2500 companies had usually spent 10 years in the job. In 2000, the figure was just over 8 years, and in 2009, it had fallen to approximately 6 years. In other words, they are not around long enough to face the longer-term consequences of their decisions and actions.

What does these all mean? It would seem there is a paradox between developing a sustainable strategy, for which most tools claim to be designed, and the strategies needed to meet short-term investor expectations. Strategies that focus on maximizing short-term returns can undermine long-term economic value by ignoring important risks and opportunities. At the heart of the problem are the many barriers to long-term thinking within and between the business and financial market systems.

The key concern here is that too many businesses are pursuing unrealistic growth or unsustainable profitability to satisfy the markets, whereas good strategic decisions and choices will not necessarily improve profits immediately. An example would be investments in assets that will generate future growth and profits, such as hiring or training skilled people or developing new product lines. Conversely, the profits enjoyed today may be the result of decisions made decades ago and have no bearing on future profits if they are nearing the end of their productive life.

Paul Walsh, CEO of Diageo, stresses that sustainable value creation is as important as value creation itself. When it comes to the crunch, many companies forsake good strategic choices, forsaking them for short-term profit delivery. "The first cuts made are usually in the soft areas-employee engagement, training and development, marketing … jeopardizing the long-term wellbeing and reputation of the company."

The point I am trying to make here is that perhaps bad tools are a significant part of the story, but not the whole story. I am suggesting that the problem is being amplified by strategy practitioners who, under pressure from the financial markets, do not employ strategy tools effectively. They are interested in short-term profits rather than long-term value creation.

This article has looked at problems with the rigor and relevance of tools. It has also listed some reasons for which practitioners of strategy either do not seem to use these tools, or if they did use them, they have used them badly, or had only used them perhaps as basic tools. This article has mostly taken into account three main types of practitioners, namely, the Chief Strategy Officer, the CEO, and other C-Level executives. The question now centers the strategy consultants and the tools they use. In addition, do business schools teach the same strategy tools on executive programs as on undergraduate and MBA programs?

Ethan Rasiel *et al.*'s *The McKinsey Mind* (2001) gives good insights into the tools used by one of the world's biggest management consulting companies, although the book describes the approach rather than the tools specifically.

Their approach is a fact-based, hypothesis-driven problem-solving process, which initiates with framing the issue or problem. The next step is designing the analysis, followed by gathering the data needed for the analysis. Finally comes the interpreting of the results of those analyses to see whether they prove or disprove the hypothesis, and to develop a recommended course of action.

In 2012, Cynthia Montgomery, who has been the leader of the Harvard Business School Executive Programme for 6 years, published *The Strategist*. The most striking thing about the book is the fact that only a handful of tools are mentioned. Like the McKinsey books, the focus is not only on the process, but also on strategic leadership, implementation, and communication. The mere strong reference made to a strategy tool is to Porter's five forces framework and the importance of understanding competitive forces.

What does this tell us? Maybe it confirms that tools are useful for structuring data and information to enable conversation and discussion. They often provide descriptions of a limited frame of reality, but they do not define the strategic action to be taken. Indeed, this seems to be reinforced by the authors of *Key Management Models* who attest that the strategic tools are bewildering for executives and consultants alike. They recognize that a few tools have sufficient rigor to stand up to scientific scrutiny but many of them are checklists and frameworks for ordering reality. They offer management a common business language to analyze challenges, compare performance, and find solutions to problems. Like the Bain & Company's report, the book provides a brief description of models, 60 in total, and suggestions as to their application in helping managers and consultants to determine which tool fits a given situation and to recognize their limitations.

Critics of strategic tools probably see them as no more than thinking aids, and hope they also provide solutions. The debate on the nature of strategic tools links to Mintzberg's categorization of the field of strategic management into two styles: prescriptive and descriptive. In an organization that adopts a prescriptive approach, executives focus on the process of decision-making. They are concerned with using the right tools and methods. However, the descriptive approach attributes a higher value to the content of strategic activity. It is concerned with what the executives decide rather than how they arrive at their decision.

Strategic tools remain a valuable source to ignite discussion in management teams and to open up strategic thinking on competitive challenges. They contribute to the cognitive side of management in raising awareness of current commercial scenarios. It seems, however, that the tools that prescribe which decisions to take remain few and far between, and that decision-making remains a mental process that is difficult to reduce to a set of tools and frameworks.

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