Strategic Management and Change

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22. 11. 2021.
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As the world grows more and more uncertain, businesses need to stay agile, flexible, and open to change. As external factors change at a much faster phase than ever organizations need to be responsive to their environment. Having a strategic perspective and a bird's-eye view have become crucial skills of successful executives. Today strategy is more and more about people. Businesses can't afford to have a mechanistic view of the business based on command-and-control.[1] If we want to stay on top of the changes we have to push power closer to the edges[2] of the organization. This way we can make much better strategic decisions. As complexity grows,[3] understanding and anticipating external and internal changes becomes increasingly difficult. In this uncertain and unstable environment, strategic leadership is more important than ever. As Charles Darwin famously put it: *"It is not the most intellectual of the species that survives; it is not the strongest that survives; but the species that survives is the one that is able best to adapt and adjust to the changing environment in which it finds itself."*[4]

Understanding today's competitive landscape can be very difficult.[5] Because of the unstable and volatile nature of today's economic and business environment the factors of uncertainties are increasing constantly. I mention a few concrete examples below. The life expectancy of S&P 500 companies is continuously decreasing. In the 1950s the lifespan of an S&P 500 company was around 60 years (according to Credit Suisse).[6] Today it is roughly 18 years.[7] Today's biggest employers are companies that nobody has heard of ten years ago. This trend indicates, corporate survival has become more difficult than ever before.[8] [9]

Harvard business school professor Amy Edmondson has an easy-to-remember acronym to describe the increasing complexity of the business environment we are all experiencing today. She calls it *VUCA*.[10] It stands for *Volatility*, *Uncertainty*, *Complexity*, and *Ambiguity*[11].

More and more business scholars realize, in this *"VUCA"-world* the rules of doing business are no longer stable and predictable[12] [13]. Facing the level of complexity we are all experiencing today, we need a healthy amount of agility if we, as a business, want to survive.[14] [15] Some thinkers go even further. Option trader and philosopher Nassim Nicholas Taleb argues, with the increased level of complexity we are simultaneously experiencing an increased amount of unpredictability and uncertainty as well.[16] These things go hand in hand.[17] Predictions are becoming less and less accurate because of the ever-increasing number of variables involved in every business decision.[18] Because of the decreasing believability of expert forecasting we are less and less able to make decisions that were much easier to make in the past.[19]

If we approach the same problem from the perspective of cognitive science the same pattern emerges. Cognitive scientists argue, with the increased amount of information available today social groups tend to become more and more polarized.[20] This is also true when it comes to people, concepts, ideas, and frameworks. In today's information overload world people try to simplify complexity.[21] [22] However, after a point, oversimplifying complex problems can be a major strategic issue. Decision-makers tend to use shortcuts based on their preconceptions and stereotypes that might not be accurate or appropriate in certain cases.[23] [24] Cognitive scientists call it heuristics,[25] [26] that will make decision making faster but less and less accurate and predictable.[27] As Human Factors research showed us[28] [29], using *"automatic thinking"*[30] in a complex and unpredictable environment can often lead to disasters.

This is perhaps the most important reason strategic management has become crucial in today's business environment. According to strategists Fred R. David and Forest R. David, *"strategic management focuses on integrating management, marketing, finance and accounting, production and operations, research and development, and information systems to achieve organizational success."*[31] In other words, strategic management takes a holistic approach.[32] It is concerned about the big picture while simultaneously integrating every small detail into a coherent strategy.[33]

Given the ongoing trend of ever-increasing complexity, the role of leadership has also become increasingly important. According to HBS professor of leadership, Ronald Heifetz leadership is crucially important in times of change, disruption and unpredictability.[34] When things go well, and the environment is relatively stable and predictable, leaders have to step back *"from the line"*.[35] However, when "*adaptive challenges*" arise the presence or lack of strong leadership can be the difference between success or failure.[36] In other words, one of the most important jobs of strategic leaders is decreasing the level of complexity to a manageable degree, while simultaneously considering enough details to grasp the richness of reality.[37] As Michael Porter put it: *"In essence, the job of the strategist is to understand and cope with competition. Often, however, managers define competition too narrowly."*[38] Finding the balance between simplicity and complexity[39] is crucial task of leadership[40]. Powerful leaders know how to avoid framing a problem too narrowly[41] while also keeping it simple enough to be analyzable and understandable by human beings. As Albert Einstein famously put it: *"Everything should be made as simple as possible, but no simpler."* The task of finding this delicate balance calls for a skilled leader.

Since the industrial revolution and throughout the last century people developed a mechanistic approach to management and leadership.[42] Based on the principles of *Scientific Management*,[43] managers standardized work processes[44] and distinguished between two kinds of employees: *assets* and *resources* (hence the expression: Human Resources).[45] However, more and more scholars realize that the quality of the decisions made by a small group of people isolated from the line of action can be questioned.[46] They argue, everyone in a company has to be a strategist and a contributor to making strategic decisions.[47] Therefore, good strategic leadership is also about empowering people, opening up the channels of communication between business units, and creating alignment based on common values and principles.

Strategy expert, Julia Sloan argues, executives tend to be overly concerned with *strategic planning*.[48] However, constructing detailed strategic plans without understanding the underlying nature and route causes of a problem can be dangerous. She argues, leaders also have to understand and master strategic thinking processes that lead to good strategies. By confidently using thought processes of strategic thinking we can develop a pipeline of strategic thinkers. Strategic leaders, therefore, have to focus on three aspects of the strategy at once: *Strategic Thinking, Strategic Planning,* and *Strategy Implementation.* These are complementary skills and functions that cannot and should not be separated.

More and more strategy experts acknowledge the increasing importance of thinking-related, and decision-making skills in strategic management. I will mention a few noteworthy examples below.

- Strategy expert Giovanni Gavetti put it this way: *"I suggest that strategic leaders must also be practitioner psychologists who expertly analyze and manage their own and others' thought processes. To broaden the strategist's role in this way, I pursue an interpretation of the competitive game that differs from Porter's."*[49]

- Dale Mcconkey said, “plans are less important than planning.”[50]

- Carl Spetzler, strategic decision-making expert and Stanford professor argues the quality of the decision process is more important than the actual outcome. There is a clear distinction between the two, that strategists often tend to confuse.[51]

- Strategy expert, Fred David says, *"(...) the process, rather than the decision or document, is the more important contribution of strategic management"*[52]

- *"Planning on its own cannot produce strategic vision and direction in an organization where this is lacking."*[53] (Ann Langley, strategy researcher)

If leaders want to empower people and create alignment, communication is crucial. Systems theorists argue as systems grow more and more complex the role of communication becomes more and more important.[54] Effective communication is a powerful tool for improving the performance of any complex and highly interrelated system. Therefore, in human systems creating alignment among people is a crucial function of strategic leadership. As Fred David put it: *"Communication is a key to successful strategic management. Through involvement in the process, in other words, through dialogue and participation, managers and employees become committed to supporting the organization."*[55] Creating alignment and buy-in is extremely important in a highly dynamic business environment. Leaders and managers can't be everywhere at once. They have to delegate, trust, empower people while at the same time holding them accountable. Former MIT professor, Edgar Schein argues, the more complex a problem is, the higher is the *task interdependence* between team members and the more crucial open communication and cooperation becomes.[56] Seeking input from people throughout the organization and allowing them to actively participate in the strategy creation process can highly boost engagement. Cognitive science showed us the more actively people participate in creating something the stronger they feel a sense of ownership.[57] [58] By increasing a sense of ownership among team members, business strategy will represent a greater individual value for people.[59] That will be a strong foundation of effective strategy implementation.

Leaders have to have a large toolbox while designing, implementing, and evaluating strategy. They need *strategic thinking* skills to successfully analyze, understand the complex problems they are facing. Research suggests a few very useful *strategic thinking* tools and practices include the following: *formal and informal learning*[60], *metaphoric thinking*[61], *critical* *reflection, and transformative learning*[62], *single, double, and triple loop learning*[63], *critical reflection,*[64] *incidental and intentional learning*[65], *action learning*[66], *lateral thinking*[67]. Leaders also need to have strategic planning skills. They need to successfully integrate various theories, approaches, analytical methods, and mental models[68] into a coherent strategic plan[69]. A few widely used models include: Five Forces (Michael Porter)[70], Growth-Share Matrix (BCG)[71], Innovator's Dilemma (Clayton Christensen)[72], Strategic Intent – (Hamel & Prahalad)[73], Blue Ocean (Capgemini)[74], Three Horizons of Growth (McKinsey),[75] Strategy Styles (BCG),[76] Four Levels of Uncertainty (McKinsey),[77] Consolidation-Endgame Curve (AT Kearney)[78], Political, Economic, Social, Technology Analysis (PEST)[79], Marketing Mix Analysis (Product; Price; Promotion; Placement; People; Process; Physical – 4 P's or 7 P's),[80] Product Lifecycle Analysis[81]. Strategic leaders also have to create alignment, buy-in from every level of the business to set the stage for successful execution. A few powerful communication tools include *critical inquiry,*[82] *critical dialogues,*[83] *discussion, debate, humble inquiry*[84], different *brainstorming*[85] techniques.

By creating a shared vision[86] and compelling mission leaders can create a culture of openness, a motivated and committed workforce. This way we can create alignment between strategic vision and mission strategy and culture[87] that can be a strong foundation of strategic implementation.

Perspective taking[88] has long been acknowledged as highly beneficial in decision-making. Getting inside our opponent's head[89] and having a different view of the situation can be highly beneficial in making strategic decisions[90] as well as in various interpersonal situations[91]. Perhaps the most important benefit of conducting a comprehensive external analysis is to be able to see the business from an outside perspective. Considering the factors outside the firm's control and calculating the potential risk of encountering something unexpected can be a significant strategic advantage. Nobel-prize-winning psychologist, Daniel Kahneman calls this the shift between an *"inside view"* and an *"outside view"*.[92] He argues, executives often fall prey to this bias while making strategic decisions.[93] It can be responsible for many strategic failures.[94]

Business people, especially entrepreneurs, intuitively tend to focus on their positive aspirations, goals, and dreams more than the potential obstacles a business may encounter. Wharton Business School professor Adam Grant argues, entrepreneurs and highly original, creative thinkers "need" to have a distorted view of reality to a certain degree.[95] Entrepreneurs dream, envision, inspire, hope, and keep going no matter what happens. A healthy amount of *unrealistic optimism*[96] towards their own company's future performance can give a sense of control that can be a powerful motivator. The importance of having a powerful vision[97] that keeps people on track is incontrovertible.

Nonetheless, having a strong vision can have its downsides as well. Strategy expert, Julia Sloan—while conducting in-depth interviews with more than a hundred business strategists and executives—observed a recurring theme. The most successful strategists were focusing the majority of their energies on the weaknesses of the company and the outside factors that are threatening the company's survival.[98] By focusing on problems and considering all the things that could go wrong they were able to anticipate and avoid unforeseen events and negative factors. This phenomenon is a mental one. This shift in thinking costs nothing, yet still can offer huge benefits in strategic decisions. Cognitive scientist Gabriele Oettingen studied this phenomenon for more than 25 years. She has scientifically proven that having a focus on obstacles and things that are outside of our control can lead to much greater results and achievements than just focusing on our dreams to come true.[99] This is true while making high-stake decisions and during everyday life situations as well.

In a business setting, if we want to consider the factors outside of an organization's control it is necessary to understand the competitive landscape and the environment in which the firm operates. That is why strategists need to conduct a comprehensive environmental analysis. Richard P. Rumelt, Emeritus Professor at the University of California argues, the most important job of the strategist is to leverage the organization's strengths in a way that puts our opponent in a disadvantaged position.[100] Every company should play according to its own rules and focus on its strengths. Companies that are trying to match the opponent in every single perspective are not using their resources most efficiently. However, executives also need to know where and how can things go wrong and avoid those traps as much as possible. In other words, it is crucial for strategists to identify the organization's key *strengths* and *weaknesses.* If we go a step further we also have to examine the *strengths* and *weaknesses* of our competitor. Comparing our capabilities to our competitors' will give us a more accurate picture of the organization's situation. Furthermore, taking into consideration the major trends and influencing factors within an industry we can get a deeper understanding of our *opportunities* and *threats.*[101]

As I mentioned above, focusing on factors we cannot control can be a very useful approach when it comes to strategy. Therefore, industry factors can be at least as important to consider as internal factors of a business. It could be highly beneficial to approach the external environmental analysis from an *Industrial/Organizational* perspective.[102] We can analyze the situation of a particular industry by examining the barriers to entry in the market, economies of scale, the level of product differentiation, level of competitiveness within the industry.

By conducting a PESTLE analysis[103] we could gain a deeper understanding of the ongoing changes in the healthcare industry that can greatly affect our business. It also gives us a holistic picture of the environment in which the organization operates. The first factor to consider can be the economic environment of the business. By examining the global economic environment there are four major economic systems.[104] Free market capitalism can be found in most western, developed countries. Centrally planned capitalism can be found in Sweden and Japan. However, there are two other forms of economic systems also present in today's global environment. Market socialism can be found in China and India for example; and centrally planned socialism in Cuba and North Korea. Before entering a new market in a new country this would be the first step to consider. The market environment can greatly determine the chances of the future success of a healthcare company. For example, it can be greatly affected by healthcare regulations, consumer purchasing power, and spending patterns.[105] It can be particularly useful to examine market fluctuations, economic downturns, and inflations. Other economic forces to consider are the availability of credit, level of disposable income, interest rates, inflation rates.[106] Understanding the social/cultural environment of the business is also crucial for success. Northwestern University professor Philip Kotler advises looking at the socio-cultural trends of our target market.[107] These can include values, perceptions, buying preferences, and customer behaviors. The findings can represent trends and opportunities health and social care organizations need to be aware of. Technology can be another threat or opportunity. We live in an age of disruption when new technologies can emerge extremely fast.[108] It is very important to consider their implications to the health and social care industries. Political and legal environments are also very important to consider. Laws, government regulations can have a strong effect on our business, especially in highly regulated industries, such as medicine manufacturing, medical trials, or surgical procedures.[109] Political, economic, social/cultural, technological, legal, and environmental factors can greatly increase or decrease the demand for health care in general. Health and social care organizations have to take a proactive approach and understand these factors if they want to use them to their advantage.

In the early 1980s, Michael Porter observed that some industries are highly profitable while others are operating with a much lower profit margin.[110] In some industries there is too much competition and firms are just competing the profit away,[111] while struggling for survival. In his 1980 book *Competitive Strategy* he published his theory, called *Porter's Five Forces*.

According to his theory, five major forces determine the profitability and attractiveness of an industry. These forces are *Bargaining Power of Buyers*, *Bargaining Power of Suppliers, Threat of New Entrants, Threat of New Substitutes,* and finally, *Rivalry Among Existing Competitors*. According to Porter, these are the factors that affect the competitiveness and profitability of an industry. From the perspective of this theory the worst industry to be in when the barriers to enter the industry is very low, the bargaining power of buyers is high (dropping the prices), buyers can use other products as well to satisfy their needs, many suppliers can provide similar solutions and finally, there is a huge rivalry among existing competitors.[112]

There are two more very useful tools to better understand the industry in which the business operates: the *External Factor Evaluation (EFE) Matrix* and the *Competitive Profile Matrix (CPM).* Both tools are developed by strategy experts Fred R. David, Forest R. David.[113] By conducting an *EFE* and *CPM* analysis we can summarize and evaluate our findings. These are very practical tools that help us determine the right course of action.

The goal of an *EFE* analysis is to summarize and evaluate the information gained from a company's external and internal environment analyses. Key factors can include economic, demographic, governmental, social, environmental, technological, cultural, political, competitive factors. By conducting an EFE analysis we can have a detailed picture of the firm's external environment.

The *Competitive Profile Matrix (CPM)* as its name suggests focuses on competitors. Conducting a *CPM* analysis we can identify the firm's major competitors and their strengths and weaknesses. This way we can gain a better understanding of the firm's relative position compared to its competitors. We can also better understand what are our major strengths, critical success factors, and major weaknesses. We can assign a weighted score to each factor relative to its importance. Then, by calculating the weighted average of the listed factors we can accurately identify the areas for improvement.

Thoroughly understanding the competitive landscape, trends, and factors outside the firm's control can help us choose the appropriate strategy. Every situation needs a different approach. As Amar Bhide professor of international business put it: *"Strategies for taking the* *hill won't necessarily hold it."* We have to examine the viability and timeliness of our current business strategy. It has to be in synchrony with the firm's circumstances, external and internal factors.[114] Companies are traditionally working based on one-year cycles. However, many businesses—especially in high-tech and startup industries—keep experimenting with shorter timeframes.[115] Gary Hamel and Michele Zanini in their insightful book[116] argue, in today's extremely dynamic and interconnected world changes can happen much faster than ever before. Radical changes in the environment can happen in months or in some cases even in weeks (perhaps the most vivid example is the outbreak of the Covid-19 epidemic). They argue, if a company wants to be innovative, stay up-to-date and be in control of the situation it has to rethink the length of its business cycles. They mention quite a few examples of companies that are experimenting with innovative approaches. Some organizations replaced their yearly strategic planning cycles and replaced it with an ongoing one to stay agile and more flexible in today's world.

Even if we don't adopt such a radical approach it is necessary to rethink our strategy from time to time. A company can pursue two or even more strategies at the same time.[117] However, trying to implement many strategies at once will make it harder to focus our resources on the initiatives that matter. It is a better approach to just name a few key objectives a company wants to achieve and focus on those few factors that can make a difference. Lean thinkers developed an approach that helps focus the organization's resources on the right set of actions. They suggest focusing on one single metric that can have the largest overall benefit for the business.[118] They call it *OMTM (One Metric That Matters).*[119] Making a decision and choosing a set of actions also means giving up on something else, not pursuing another set of actions. Being focused also means deciding what NOT to do, which possibilities to ignore and which paths not to choose.[120] As Steve Jobs famously put it, *"Innovation is saying no to 1,000 things."*[121] Every choice has its *opportunity cost*[122] (measured by the lost opportunity to use resources in a different way[123]), every choice involves "trade-offs that sacrifice opportunity."[124] Therefore it is crucial to understand the key differences between types of strategies.

Fred R. David and Forest R. David distinguished between four broad groups of business strategies a company can pursue.[125] The first broad group is *Vertical Integration Strategies* that include three other types of strategies, *Forward Integration* (its goal is gaining ownership or increased control over distributors or retailers)*; Backward Integration Strategy* (its goal is gaining ownership or increased control of a firm's suppliers) and *Horizontal Integration Strategy* (its goal is gaining ownership or increased control over competitors). The second broad type of strategy is *Intensive Strategies* that include the following: *Market Penetration*

Strategy (seeking increased market share for present products or services in present markets); *Market Development Strategy* (introducing present products or services into a new geographic area); *Product Development Strategy* (seeking increased sales by improving present products or services or developing new ones). The next broad category is *Diversification Strategies* that including the following: *Related Diversification* (adding new but related products or services); *Unrelated Diversification* (adding new, unrelated products or services). In the presence of a concrete competitive and/or market-related threat we can also apply *Defensive Strategies*. This includes the following: *Retrenchment Strategy* (regrouping through cost and asset reduction to reverse declining sales and profit); *Divestiture Strategy* (selling a division or part of an organization); *Liquidation Strategy* (selling all of a company's assets, in parts, for their tangible worth).

Michael Porter in his books *Competitive Strategy (1980),*[126] *Competitive Advantage (1985),*[127] *and Competitive Advantage of Nations (1989)*[128] distinguished between five types of strategies. A company pursues a *"Cost Leadership—Low Cost"* strategy if it offers products with the lowest available price on the market. A *"Cost Leadership—Best Value"* strategy is when the company tries to offer the best price-value ratio available on the market. With a *Differentiation Strategy* the organization targets higher-tier, relatively price-insensitive customers that are willing to pay for a unique solution. If a business is not trying to target the broadest possible market but focuses its efforts on a relatively small number of customers it has two alternative ways to do so. A *"Focus—Low Cost"* strategy involves offering products and services to a small customer segment at the lowest available price in that product category. The other approach is targeting a small number of customers and maximizing the value perceived by those customers, not necessarily at the lowest possible price. The last two strategies are also known as *"niche market"* strategies.[129]

A word of caution: this categorization seems straightforward, however, in real-life situations the lines between these distinct categories of strategy can be blurry. Furthermore, the perception of danger, threat, opportunity, success, and failure can be confusing as well. Different people can draw entirely different conclusions based on the same data.[130] Leadership and management professors Ryan Gottferdson and Chris Reina argue, despite spending $356 billion on leadership development efforts worldwide, leaders tend to fall into the same decision-making traps.[131] People base their decisions on mental models,[132] frames[133] and behavioural patterns[134] and not necessarily just on facts.[135] Decades of cognitive research on leadership mindsets also shows similar patterns. Depending on which mindset are we operating in (*Growth and Fixed Mindsets,*[136] *Learning and Performance Mindsets,*[137] *Deliberative and*

Implemental Mindsets,[138] *Promotion and Prevention Mindsets*[139] [140]) we can make widely different actions based on the same set of data. For example, being in a *Prevention*, rather than a *Promotion* mindset can be the reason for choosing a *Defensive Strategy* over an *Intensive Strategy*. This can be especially dangerous in times of crisis, market crash, or other major external and internal setbacks.[141] two people can view the same event as a business opportunity and a threat at the same time having the same available information.

Choosing the best possible strategy greatly depends on the organization's external conditions and internal capabilities. Just to mention a concrete example, Stanford professor, Steve Blank argues one of the most frequent mistakes executives make while choosing the most appropriate strategy is getting the *market type* wrong a business wants to enter.[142] Behind numerous business failures is the common tendency to apply strategies of mature and established markets to startups and early-stage ventures. As Clayton Christensen would say, *"Markets that don't exist can't be analysed"*.[143]

There is a long and still ongoing debate on the relationship between strategic planning and strategic implementation. *Philip Selznick*[144] and *Alfred Chandler*[145] were the pioneers of a strategy-building practice that emphasized the role and importance of strategic planning. This theory is mainly based on the principles of industrialism.[146] They believed that knowledge is linear, all aspects that determine the success of a strategy can be known and planned for in advance. Strategists can calculate all the risks involved, make detailed plans, and execute them accordingly. Strategy planning and implementation are two, very distinct phases of the strategy process. One is an intellectual process, the other is operational. Today this theory is known as the *"Design School"* of strategy.[147] It began with two influential works, Philip Selznick's 1957 book, *Leadership in Administration,* and Alfred Chandler's 1962 volume, *Strategy, and Structure.*

Another paradigm that puts strategic planning perhaps the most important business activity is known today as the *Planning School* of strategy. It began with Igor Ansoff's influential 1965 book, *Corporate Strategy*.[148] This school of strategy is even more formal and systematic than the *Design School*. Strategists try to control every aspect of business activities. By applying microeconomics to business it developed hundreds of forecasting and audit-analysis techniques, such as *scenario planning*.[149] [150]

While these two schools of strategy stated the special importance of *planning*, throughout the last decades more and more strategic thinkers have become skeptical in these overly rigorous approaches. They argue, every detail of the strategy cannot and should not be analyzed and planned in advance. They think, a small group of people at the tip *of the corporate triangle*[151] can't make the *best strategic choice.* As the business environment continuously becomes more and more complex, many scholars realize, strategic planning and implementation grew more and more distant. Eminent strategic scholar Henry Mintzberg calls this *"the fallacy of detachment".*[152] In his 1998 book, Strategy Safari, he argues the most important factor of strategy implementation is organizational culture.[153] According to his theory, strategy happens between employees at the operational levels and customers, not in the head of top executives. He states strategic planners cannot discover the best strategic choice. Because most business situations do not have one single answer, strategists and executives must stay as close to the action as possible.

Two other influential thinkers who share this point of view are Columbia Business School professor and management theorist Rita Gunther McGrath and Stanford professor and entrepreneur Steve Blank. Rita Gunther McGrath pioneered the theory of *Discovery-Driven Planning.*[154] This theory states when businesses *"enter unknown territory"*[155] conventional strategic planning approaches don't work as effectively as in the case of well-established markets. In her 1995 book, she states, in situations that involve uncertainty we have to use a *discovery-driven* approach.[156] In these cases strategic planning and implementation have to be complementary and a non-linear, iterative process. It is crucial for businesses to be open and receptive to their environment and continuously discover the best strategic choice.

Steven Blank also argues, the phenomenon behind many business failures is the tendency of businesses to grow more and more distant from real customer needs.[157] In the early 2000s he pioneered the concept of *"customer discovery"*.[158] It was a radical idea at that time, but it is a widely used approach today, especially among startup ventures. According to his theory, the role of executives is to systematically figure out customer needs and build a business based on ideas that have been validated by real customers. This way we can bring the external state of the business closer to its internal processes. Product development and customer development should go hand in hand,[159] so we can eliminate a large number of uncertainties involved in making strategic decisions.

Strategist Fred R. David has developed a useful framework for making strategic decisions, creating alternative strategies, and figuring out the best possibility to pursue. He calls it the *Strategy-Formulation Analytical Framework.*[160] It has three distinct stages: Input Stage, Matching stage, and Decision Stage. We can conduct an Internal Factors Evaluation Matrix (IFM) as well as External Factors Evaluation Matrix (EFM) and also a Competitive Profile Matrix. The role of the *Input Stage* is to gather as much information as possible about the external as well as internal factors of the business. In the second *“Matching Stage”* we match the organization's strengths and weaknesses with external opportunities and threats. Fred David mentions a few useful tools for the second stage of the *Strategy-Formulation Analytical Framework*. These include *SWOT Matrix, SPACE Matrix, BCG Matrix, IE Matrix,* and *Grand Strategy Matrix.*

With a *SWOT Matrix* [161] we can analyze the external opportunities and threats of an organization and match them with internal strengths and weaknesses. The result is four different strategies an organization can pursue. The first, it the *Strengths-Opportunities (SO)* Strategy, whose goal is to *"use a firm’s internal strengths to take advantage of external opportunities"*. The second is the *Weaknesses-Opportunities (WO)* Strategy, its goal is to improve internal weaknesses by taking advantage of external opportunities. The third possible approach is the *Strengths-Threats (ST)* Strategy, whose goal is to use the firm’s strengths to avoid or reduce the impact of external threats. The last strategy is the *Weaknesses-Threats (WT)* Strategy, its goal is using defensive tactics aimed at reducing internal weaknesses & avoiding environmental threats.

Another great tool we can use in the matching stage is the *Strategic Position & Action Evaluation Matrix (SPACE Matrix)*. The two internal dimensions include *Financial Strength (FS)* and *Competitive Advantage (CA).* We can examine two internal factors and two external factors that describe the situation of our business. The two external dimensions include *Environmental Stability (ES)* and *Industry Strength (IS).* We can compare the two key internal dimensions with the two external dimensions to find out which is the best possible strategy to pursue in the current situation of the organization. Depending on the relationship between these factors we can choose between four broad types of strategies *Conservative, Aggressive, Defensive,* and *Competitive*.

Another very useful tool we can use in the matching stage of the strategy formulation framework is the *BCG Matrix.* It was developed by the Boston Consulting Group.[162] While matching the organization's capabilities with its external environment we can identify four archetypal situations: *Question Marks, Stars, Cash Cows,* and *Dogs.* In the case of *Question Mark* when we have a product in high-growth markets with low market share. In these situations the business' cash needs are high but the return on investment is quite low. These circumstances can be dangerous for the business if it falls into the trap of trying to build a company based on assumptions and high hopes. Many such examples can be found as business case studies from the era of the dot-com bubble.[163] As Clayton Christensen would say to these kinds of situations, *"Be patient for growth and impatient for profits."*[164] The second scenario is called the *"Stars"*. It refers to the state of having products in high-growth markets with a high market share. These are the best long-term opportunities that require intensive strategies. The third scenario is called *"Cash Cows"*. These are products or services in low-growth industries with a high market share. In this situation, the business can generate a relatively stable profit but the growth potential is limited. Bill Sharpe, who popularized the theory of *Three Horizons of Growth*[165] argues, the best approach is to maintain the stable position of mainstream businesses as long as possible. But at the same time, the firm should invest the generated profit into other opportunities that have higher growth potential. The last situation according to the *BVG Matrix* is the *"Dogs"*. If a business has products in low growth rate markets with a relatively low market share the best thing to do is to use a defensive strategy. Try to exit the business through liquidation, divestiture, retrenchment, and preserving as much cash as possible.

Another approach to assess the growth potentials of the business is to conduct an *Internal-External Matrix* analysis. We can assess the situation of the business based on two key dimensions: calculating the weighted scores of *IFE Analysis* (represented on the X-axis) and *EFE Analysis* (represented on the Y-axis). Then make nine columns that visually represent the different combinations of these two values (the weighted score of the IFE analysis and the weighted score of the EFE analysis).

Another tool to visually assess and combine different types of strategies, as well as formulate new ones is the *Grand Strategy Matrix*. We can represent the level of market growth on the horizontal axes, which goes from *Rapid Market Growth* to *Slow Market Growth.* Also, we represent our competitive position on the horizontal axes, from *Weak Competitive Position* to *Strong Competitive Position.* We can divide all existing strategies based on these four quadrants. It is a really useful tool for creating alternative strategies, visually representing all our possibilities, and choosing the right strategy accordingly.

The last stage of the *Strategy-Formulation Analytical Framework* is the *Decision Stage*. [166]We can conduct a *Quantitative Strategic Planning Matrix* to determine the right course of action and evaluate the attractiveness of alternative strategies. We can list all the strategies created and assess them in a standardized manner based on key external and internal factors. By assigning weights to each key external and internal factor we can compare and evaluate the attractiveness of the particular strategies. This makes it simpler and easier to choose the right course of action and implement the strategic choice.

It is crucial for strategic implementation to align the strategy with organizational culture. A very useful approach is to invite as many stakeholders to strategy meetings as possible from all business units and functions.[167] Letting people participate in the strategy-creating process can create a strong sense of ownership that will make the implementation process significantly easier.[168]

In his insightful book, *Measure What Matters*, legendary investor John Doerr describes a management practice that can significantly boost the success of strategy execution.[169] He calls it management by OKRs (Objectives and Key Results). It was developed by Andy Grove,[170] former CEO of Intel, and popularized by Google. It has been used with great success in a large variety of high- and low-tech, fast, and slow growth industries, by companies of every size, from startup ventures to large enterprises. It is a collaborative goal-setting protocol that channels effort and coordination, linking diverse operations according to the organization's main objectives.[171] It creates alignment between employees and helps various stakeholders work on the same goals without needing to *micromanage*[172] them. Setting an Objective means defining what we want to achieve exactly. An Objective has to be significant for the business as a whole, concrete, action-oriented and inspirational for stakeholders. Defining Key Results means specifying the right measurement of successful implementation. Key Results are the enabling conditions of achieving an objective. It answers how to complete a course of action and achieve our objectives. This goal-setting methodology is based on scientific research of goal-setting theories,[173] it has been widely researched and proven effective by a large number of companies. By using OKRs we can significantly increase the success of strategy execution.

In conclusion, as today’s business environment grows more and more unstable we have to align strategy with culture as much as possible. Businesses that have a solely a top-down, hierarchical structure tend to fall behind. Today changes can happen everywhere. That’s why it is crucial to empower people and enable a variety of stakeholders to contribute to strategic decision-making. Aligning the external and internal factors of the business is crucial. That’s why executives need to have a bird's-eye view more than ever to anticipate and respond to changes that happen outside the organization’s control.

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