What Is Strategy? How Great Leaders Get What They Want

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Outline

This white paper describes our thoughts about creating a strategy that delivers the promise of the vision. Most strategies fail. For over 25 years, our experience working with leaders on strategy and strategy-related projects has helped us identify what we think are best practices for leaders whose job is to set direction, structure, and animate their organizations to capture profit and mitigate risks.

1. What Is Strategy?
2. What Is the Strategic Process?
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4. Strategy Mapping: A Systemic Strategic Framework
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The document concludes with a list of references used in its preparation.

1. What is Strategy?

Every leader ought to want something. ***Strategy is the collaborative work leaders do to get what they want.*** This definition conveys (1) that strategy is something that leaders do with others; (2) that strategy encompasses a broad cluster of activities leaders manage to identify and assess opportunities and configure and mobilize resources to capture them, and (3) that strategy carries an imperative—the organization must change to realize the value promised by the strategy.

A firm in need of strategy is perfectly organized, managed and motivated to get the results it currently realizes. For leaders to get what they want, the organization must change. Effective leaders have zero tolerance for the status quo. The leader's primary role is to lead transformational change—first to determine direction and then to communicate, organize, develop, motivate and inspire followers to achieve the vision.

Strategic management requires strong leadership capabilities related to four core activities (Teece, 2007, 2009, 2011, 2012). It is importand to note that these activities are only "loosely" sequential; but are continuously a part of the leader's mindset.

a. **Sensing**. The leader must produce a vision of the future in which opportunities or threats are developed or managed to create a competitive advantage. *Sensing* deploys a set of capabilities that involve exploring opportunities, probing markets, and listening to customers and internal stakeholders, along with scanning other elements of the business ecosystem. Leaders must build and "test" hypotheses about market and technological evolution, including the recognition of "latent" demand. Sensing capabilities include knowledge-gaining and decision-making processes employed to determine direction.

b. **Transforming**. To capture new opportunities (the goal of the strategy) the organization must change. An organization perfectly structured and animated to achieve it former objectives must be transformed to achieve the superior results envisioned in the new strategy. The leader transforms the organization by building and implementing new processes and capabilities designed specifically to capture new opportunities and by eliminating processes and capabilities no longer relevant to strategy implementation. Also essential in the transformation process are the "words and deeds" of leaders that mobilize, motivate and inspire people to change (Kotter, 2001).

c. **Seizing**. The leader must deploy organizational readiness and capabilities to capture opportunities. *Seizing* involves a set of leadership capabilities related to the selection and development and launching of strategic and business models focused on satisfying customers and capturing value. It also includes securing access to capital and the necessary human resources. Employee alignment and motivation is vital. Strong relationships must also be forged externally with suppliers, partners, and customers. Core activities include setting direction, communication, aligning stakeholders. planning and executing the strategy.

d. **Shifting**. New strategies are always under attack. Leaders must fend off threats from the innovations of competitors and complications that arise from circumstances that the strategy, no matter how well constructed, failed to anticipate (e.g., pandemic, flood, or war). Key here is the development of dynamic capabilities that enhance intelligence gathering, link competencies in a cause-and-effect chain, promote cross training and other actions that increase anticipation and organizational agility.

These core strategic activities operate in at least three business contexts:

a. Corporate Strategy. Corporate leaders create and lead strategy execution related to the portfolio of businesses that comprise the corporation. Corporate strategy responds to several questions: "Which businesses should we be in?" "How do we maintain or increase growth and value creation through our portfolio of holdings? "How can we realize the synergies created by our corporate portfolio of businesses to gain competitive advantage?" Portfolio strategy, merger and acquisition activity, and business ecosystem development are central to corporate strategy.

b. Business Strategy. Leaders apply the core strategic activities (sensing, seizing and transforming) to a single firm or business unit, which may or may not be a part of a diversified corporation and must align with the overall corporate strategy.

c. Functional or Project Strategy. Leaders develop strategy specifically for a division or functional area within the business, such as: sales, marketing, product development, research and development, human resources, finance, legal, supply-chain or information technology, or for major projects. This work usually focuses on short and medium-term planning. Functional and project strategies are derived from and must be aligned with broader corporate and business strategies.

In addition to these three business contexts, sensing, transforming, seizing and shifting activities also pertain to strategy work within educational, governmental and non-profit entities.

No matter what the challenge, no matter how complex the issue, the collaborative processes of *sensing* potential opportunities and threats to determine direction, *transforming* the organization to achieve the vision, *seizing* the potential inherent in the vision through planning and aligning and launching coordinated actions, and *being ready to shift* the organization in the face of unmitigable threats are relevant for all strategic work.

2. What is the strategic process? What do strategic leaders do to get what they want?

Let's begin with a story.

On an island in the South Pacific called Canifloria, an entrepreneur learns about a series of meetings among the leaders of four towns geographically dispersed along the island's coast. The leaders are discussing ways to open commerce among these economic centers. As the island's infrastructure is undeveloped, and ocean currents near these centers are treacherous, the entrepreneur senses an opportunity—a company that will build and maintain roads through the dense forest that covers the center of the island.

To seize this opportunity she forms a company, Machete Wielding Natives, Inc. (MWN). Her vision is for a great team of strong machete wielding men and women able to cut, with incredible speed and agility, a swathe through the dense underbrush and thereby open commerce among the island's economic centers.

Where does she begin?

The Best People. She's been to business school. She's learned that the way to create distinctive and sustainable value begins with leveraging human capital. She starts by "getting the right people on the bus" (Collins, 2001, p.11). She recruits throughout the island of Canifloria searching for the best machete wielding natives she can find. Her people will be MWN's most important asset.

The Best Technology. She can't just put her machete wielders out there with their bare hands; they need a great machete. She calls in the technology gurus and soon they return with the shiniest and sharpest machete ever invented—a platinum beauty called the "SM777".

The Most Efficient Operational Processes. Now that she's got people and technology, she needs a process, a highly innovative, efficient way for her machete wielders to work together. She turns to her industrial engineers, who borrow from the conquests of Alexander the Great to invent this essential strategic capability, "the machete wielding phalanx." A line of strong machete-wielders works in the front until they get tired. They then drop to the back and clean up, while a new line of fresh wielders moves to the front and continues to mow down the brush.

A Skilled Team. She realizes that the her team's technological know-how needs to be developed and protected—her machete wielders must use the best techniques, understand the "phalanx" process, and have the endurance to work the long hours that will be needed to get the job done. She creates MWN Corporate University and implements a terrific training program. In fact she customizes a development program to meet the needs of each individual wielder.

Effective Management. As her company grows, she hires a great management team. She hires a CFO and a group of terrific accountants. She lines up investors to support her expansion efforts. Her marketers target potential customers in government and industry, and her sales team engages them with the economic value that will accrue from the new road-building venture.

In the end she's certain that she has it all together. She has:

- The best people
- The best technology
- The most efficient processes
- A skilled management team
- Strong financial managers
- A target market
- A burgeoning brand
- An corporate development team
- Willing investors

Her company, however, still lacks one essential capability: ***The leader's ability to create and launch a compelling strategy***.

Soon she realizes that she needs someone up in the tallest tree, looking out over the canopy, telling her well-trained, well-armed, well-managed team where to go. She needs a strategy that guides an agile team to quickly capture strategic opportunities and avoid strategic risks. She needs a strategy that provides a comprehensive view of the environment in which MWN operates—an ecosystem that includes the market, potential competitors, Canifloria's government and legal systems, suppliers and sources of financial and human capital. In addition, she needs the ability to motivate and inspire her team to help achieve MWN's vision.

As introduced above, to be an effective strategist, our leader needs capabilities relevant for four clusters of strategic activity:

1) **Sensing.** Our leader needs to be able to look out over the canopy, sense and determine the direction for her team to head. ***Knowledge-building capabilities*** are essential to gain intelligence on threats and opportunities: "Where are the mountains, the rivers and the cliffs that form obstacles and put our strategy at risk?" and "Where are the opportunities—the ways that are straight and flat?" To build strategic intelligence, leaders:

    a. Process and analyze constant streams of information to anticipate how current trends and forces will play out in the future, driving changes in technology, products, and markets, and identify corresponding changes around customer needs and values (***intelligence-gathering and analysis capabilities***).

    b. Gain strategic insights by the way they structure the executive office ***(organizational, dialogical and motivational capabilities):***
        1) Surround themselves with experts who provide regular industry-specific briefings in areas essential to business success.
        2) Ensure these experts continuously analyze and communicate data on the economy, the market, their industry, their customers, and their firm's performance vis-à-vis competitors.

    c. Envision the future. Armed with these tools and his/her experience, the leader weighs opportunities and risks to make the reasoned decisions that determine the strategic direction (***decision-making capabilities***).

    d. Make reasoned decisions sharpened through the interaction of seven foundational leadership competencies. These competences interact to "unbind" the leaders decision-making capabilities (Simon, 1997, 1982):

    1) Renewal: maintaining physical, emotional, intellectual and spiritual health
    2) Ambition: every leader ought to want something for her/his organization
    3) Curiosity: setting up the executive office to provide the constant flow of relevant information required for strategic decision making
    4) Connection: regular cultivation of strategic relationships inside and outside the organization
    5) Integration: understanding the organization as a system—how decisions impact the various parts of the organization
    6) Vision: the ability to imagine, tell and live out a compelling future story
    7) Transformational IQ: an understanding of the transformational process and the ability to execute it

2) **Transforming.** To accomplish the objectives of the strategy, the firm must change:

    a. The leader needs to understand how the parts of the organization will have to work together to achieve the overall objectives of the strategy. A successful strategy will link together various and often functionally or geographically disparate foundational capabilities (best practices, core competencies) within the organization in a chain of dynamic capabilities designed to reach strategic goals. Identifying, assessing, building, managing, protecting and sustaining such foundational and dynamic capabilities is essential for successful strategy execution.

    b. When the leader up in the tallest tree shouts down the direction or when he or she communicates how the team will work together to achieve the goal, the message must be believed. The team has to trust the leader, and be motivated and inspired to implement required changes. MWN needs a leader who can get people to embrace a common purpose and motivate them to execute it.

    c. Strategy execution requires a transformational process that diminishes resistance to change, while communicating and cascading the strategy throughout the organization. Research confirms the following leadership activities to be essential to the transformational process (Jick, 1991; Kotter, 1995, 1996, 2001):

        1) Define a clear direction
        2) Create readiness for change by communicating a compelling business case that provides a response to an external threat (e.g., from competitors) or describes a high potential market opportunity
        3) Line up political sponsorship among the key organizational and external stakeholders who will be most affected by the change
        4) Develop the major strategic objectives, initiatives, action plans and measures
        5) Create teams and identify team leadership to execute the action plans
        6) Build organizational capability by closing critical capability gaps and orchestrating foundational capabilities essential to execute the strategy
        7) Manage execution through ongoing communication and oversight
        8) Monitor and refine the strategy dynamically in response to changing conditions

3) **Seizing.** How will the firm capture the identified value-creating opportunities? Our leader needs the ability to work out the details of the strategy—strategy development.

a. Essential here is the decision the leader makes about strategic method and business model. What framework will one use to design, develop and communicate the strategy? What business model is best suited for the opportunities the leader wants to capture? Just like there are better or worse ways to recruit a new employee, there are better or worse ways to do strategy--ways to do strategy that may or may not be relevant for the firm's industry or market; ways to do strategy that may or may not have a track record of success; ways to do strategy that may or may not take into consideration the holistic, systemic character of the organization. Gaining knowledge of the range of options for strategy development is essential for quality decisions about how to do it, as is learning and developing proficiency in the method one chooses.

b. Seizing capabilities involve routines around setting direction. Once a decision is made about direction, that direction is "set" within an organization through:

1) Processes that communicate a compelling business case
2) Processes related to the political activity of aligning stakeholders
3) Planning processes that develop and assign the details of the strategy
4) Processes that cascade the strategy down though the organization, which increasingly deepens the understanding of the strategy with internal and external constituencies.

4) **Shifting.** To accomplish the objectives of the strategy, the firm always be on the lookout for competitive threats and be able to change quickly to meet them. Where disruption is common, strategic agility is a must. In their article, "Five Trademarks of Agile Organizations," Aghina, Ahlback, et. al, identify five characteristics of agile organizations:

I. Strategy embodied across the organization. The organization has a shared purpose and vision, has developed expertise as seizing opportunities, has flexible resource allocation and receive actionable strategic guidance.
II. Structure that creates a network of empowered teams. The organization has a clear, flat structure, clear accountable roles, hands-on governance, robust communities of practice, active participation and ecosystem, open physical and virtual environment, fit for purpose accountable cells.
III. Processes that produce rapid decisions and learning cycles. Rapid iteration and experimentation, standardized ways of working, performance orientation, information transparency, and continuous learning
IV. Dynamic people model that ignites passion. Cohesive community, shared and servant leadership, entrepreneurial drive, role mobility.
V. Next generation enabling technology. Evolving technology architecture, systems and tools, next generation technology development and delivery practices.

To summarize, we need a leader with the ability to:

- Craft a compelling vision of how the organization will create future sustainable value
- Organize and coordinate the disparate parts of the organization around a plan to achieve the strategy
- Build the capabilities that transform the organization and motivate and inspire the team to execute the strategy and seize the opportunities envisions by the strategy and
- An agile organization able to turn on a dime to mitigate threats and capture opportunities that arise out of nowhere.

Good luck finding that person!!!

3. Why Do Strategies Fail?

In his *HBR* article, "Almost Ready: How Leaders Move Up," Dan Ciampa (2005) cites a study from the Center of Creative Leadership which found that 40% of new CEOs were terminated before 18 months. Another 20% were considered ineffective but were tolerated by their boards. The percentages were even worse for family businesses. The major cause of executive failure was the inability to execute strategy.

In their book, *The Strategy-Focused Organization* (2001) and again in their subsequent book, *Strategy Maps* (2004, pp. 3-64), Harvard Business School Professors Robert Kaplan and David Norton cite a litany of studies conducted over a two-decade period, which describe the failure of leaders to execute strategy. They conclude that during the 80s and 90s the failure rate of corporate strategies was between 70% and 90%. One study, conducted by Bain & Company, of large companies with revenues in excess of $500 million, in seven developed countries, during the best ten years ever in economic history (1988-1998), concluded that fewer than 10% of these large companies achieved their strategic objectives. Only one in eight came within 33% of their growth targets.

The problem of ineffective strategy persists today. In his recently published book, *The Problem with Strategy* (2012), Kim Warren claims that the recent recession can be attributed to the failure of strategies applied by private enterprises, not just to consumer behavior or government policies. What these companies set out to do ended in disaster. He gives numerous examples of how bad strategies killed huge enterprises (Enron, Swiss Air, Northern Rock, General Motors, Lehman Brothers, etc.) and how other enterprises suffered dramatically from poor strategies.

What accounts for this decades-long track record of strategic underperformance?

One explanation is the lack of a comprehensive systemic strategic framework. During this period there was no generally accepted way to do strategy. This remains true today. The strategic doctrine that existed, and the methods that were employed, focused on strategically important, but isolated parts of the organization. If you were a CEO looking for help to develop and articulate your strategy, you could read books or hire experts on a variety of strategic subjects:

- Competitive strategy
- Competitive advantage
- Shareholder value creation
- Customer relationship management
- New product development
- Best practices
- Process management
- Reengineering
- Passion for excellence
- Total quality management (TQM)
- R&D/Innovation
- Core competencies
- Human resources
- Information technology
- Enterprise resource planning
- Organizational design
- Wisdom of teams

- Learning
- Leadership development

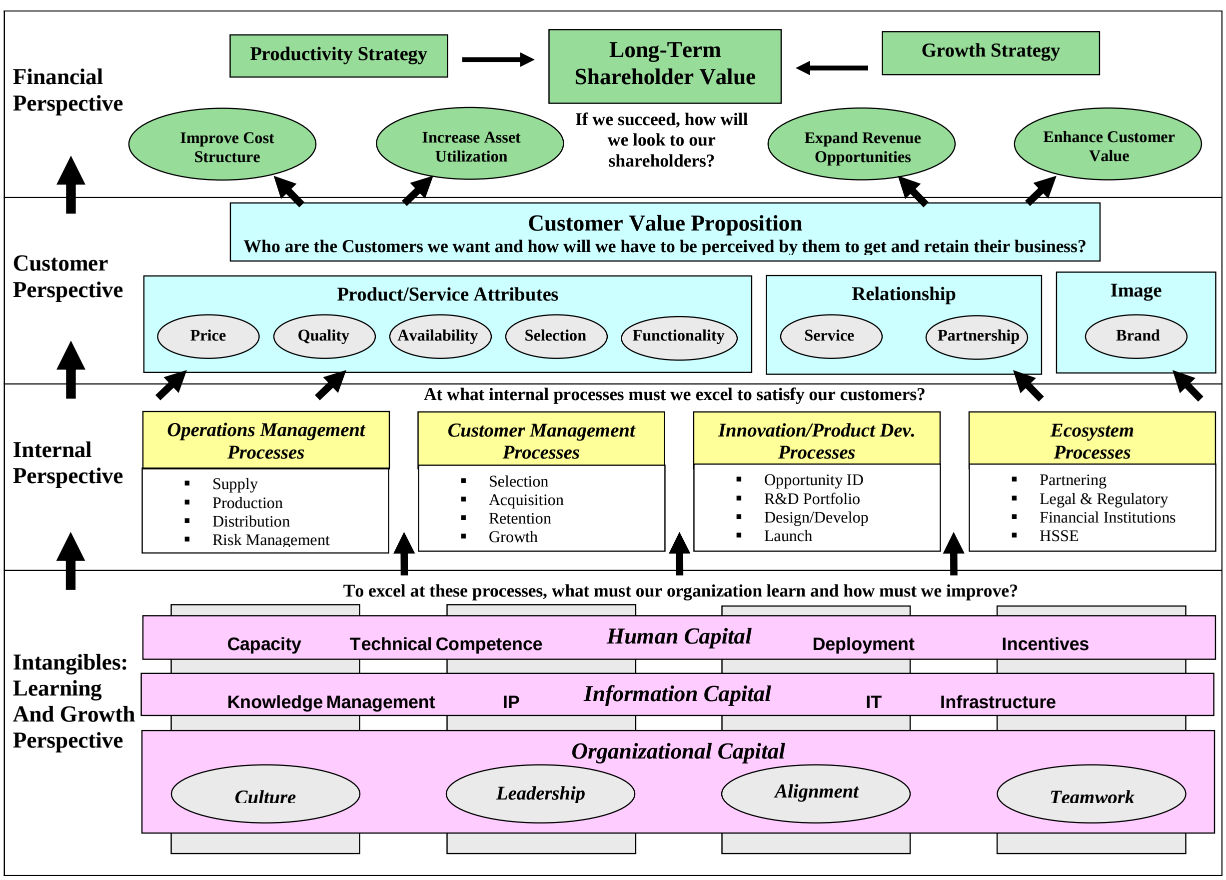
Each of these strategic doctrines provides important strategic insight. None provide the comprehensive integrative framework that enables executives to translate academically sound or deeply researched observational topics and communicate the strategy throughout the organization and align important parts of the organization to achieve it.

4. Strategy Mapping: A Systemic Strategic Framework

One alternative, "Strategy Mapping" (2004) was developed at Harvard Business School by Kaplan and Norton. Strategy Mapping is a holistic, systemic strategic framework, capable of describing how an organization intends to create value for its shareholders, customers and employees. Today this framework is used extensively as a strategic management tool in business and industry, government, and nonprofit organizations worldwide to align business activities with the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals.

After opportunities and threats have been identified and the direction or vision has been set, the strategy map shows at a glance and on one page how an organization links its key value creating activities in cause-and-effect chains. These chains start with the learning and growth of intangible assets, such as people, knowledge and processes, and end with financial outcomes, such as productivity and growth that drive total shareholder return and economic value creation. Together these process or capability chains tell in advance the story of how the firm will achieve its strategic vision—the firm's path to success.

How Does Your Organization Create Value?



Here is how the strategy mapping process works (Kaplan & Norton, 2004, pp. 3-67):

The strategy map organizes strategy execution around key questions within four business perspectives:

1. **Financial**: "If we succeed in realizing our vision, how will we look to our shareholders?"

2. **Customer**: "Who are the customers we want?" "To achieve required financial objectives, how will we have to be perceived by them to get and retain their business?"

3. **Internal Processes**: "At what internal processes must we excel to achieve objectives related to our customers?"

4. **Learning and Growth**: "What will we have to learn and how will we have to change to excel at the processes that will please our customers and produce the financial results we want?"

At the top of the map, the ***Financial Perspective*** is actually the end of the strategy-story. It represents the ultimate objective for profit-maximizing companies. It answers the question: *"If we accomplish our strategy, if we do all that we need to do, how we will look to our shareholders?"* In its simplest form, the financial perspective has only two objectives: to sell more and to spend less. These objectives are expressed by the terms "growth" and "productivity." You can grow by selling new and/or more products or services to the customers you currently have or by selling your new and/or more current products to new segments of customers in the same market or in new markets. You can improve productivity by reducing costs or finding ways to do what you do more efficiently.

Let's drop down to the ***Customer Perspective***. Everything you aspire to achieve financially depends on the impact you have on and the experience you create for the customers you want. Here we ask the most important strategic question: "*Who are the customers we want and how will we have to be perceived by them to get and retain their business?*"

Customers will buy from you for three reasons:

a. Product/Service Attributes. Your products and services meet their needs. Here the customer value proposition is expressed in terms of price, quality, innovation, availability, selection or functionality (e.g., "At Gallery Furniture, We Save You Money," is Mattress Mac's value proposition, a proposition based on price).

b. Relationship. You have a great relationship with your customer. Here the customer value proposition is forged through the quality of service you provide, the experience you create or the strength of personal bonds (e.g., "At Avis, We Try Harder," is a value proposition based on relationship).

c. Brand. The customer knows and respects your brand as a market-leader. Whatever you're selling, I'll buy from you because I know that you'll be the first to market, and that whatever you sell will be a high-performance product (e.g., think Apple iPhone, Apple iPad).

Now we drop down to the third perspective, the ***Internal Perspective***, where the key question is: *"At which processes must we excel to achieve our customer value proposition?"* To impress your customers you have to do certain things every day; there are certain internal processes at which you must excel. Many processes could be described at this level of the map. Here, as examples, we describe four:

a. Operational processes that ensure that you can deliver what the customer wants and you can do this profitably.

b. Marketing and sales processes that ensure that you get and keep the customers you want, in the segments and markets you want.

c. Processes that promote innovation to ensure that your products and services remain relevant and product development processes that speed the velocity of new products to market.

d. Ecosystem processes (Teece, 2012), which, for example, create strategic partnerships, ensure regulatory and legal compliance, social responsibility processes, and processes that build trust with financial institutions.

Next, you need a body of strategically aligned intangible assets to excel at these processes. Drop down to the ***Learning and Growth Perspective***. Here the key question is: *"In order to excel at the internal processes that support our customer value proposition, how must we grow and what must we learn?*" The strategy map divides intangible assets into three categories.

a. Human Capital ensures that the firm has the capacity (enough people) and the technical and nontechnical competence required to excel at vital processes and that human capital is strategically deployed to capture opportunities with the highest potential economic value.

b. Knowledge and Information Capital develops, protects and deploys the firm's knowledge capital (intellectual property) and ensures that the firm's IT systems, networks and infrastructure support the strategy.

c. Organization Capital ensures that through its culture, leadership, teamwork and alignment systems, the organization can sustain the changes needed to execute the strategy.

5. Strategy Mapping and Dynamic Capabilities

During the strategy development process, objectives are developed at each level of the strategy map to create best practices or core competencies around activities that are essential to achieving the strategy. These ***foundational elements*** might include, for example, competencies related to developing A+ technical and nontechnical skills, a global IT infrastructure, an innovative R+D team, an effective recruiting process, a product development process, or a strong sales team. This foundational step, creating best practices and competency in key areas of the company, is only the ***beginning*** of transforming an organization into one that can realize the strategy's vision. So far, we don't have a holistic framework. We've created the building blocks, now the links in the chain must be joined together into "strategic routines" or "super-processes" that are essential to implementing value-creating strategies. It's one thing to have a best practice around recruiting or training (a ***foundational capability***). It's another to have the right people, doing the right things, in the right place, with the right people, at the right time (a ***dynamic capability***).

One of the criticisms of the Strategy Mapping process is that, as it has often been applied in organizations that are developing strategy, the causal links between perspectives are not sufficiently articulated to make them useful for "operationalizing" the strategy. We believe that the importance of this crucial step is emphasized and elucidated through the concepts of "Dynamic Capabilities."

In his seminal article, “Dynamic Capabilities and Strategic Management” (1997) and many subsequent publications, David Teece, BRG’s founder, calls these strategic configurations and super-processes “***Dynamic Capabilities***.” Dynamic Capabilities are the organizational and strategic routines that join foundational competencies and best practices (microfoundations) into a cause-and-effect chain, a *configuration*, which effectively empowers the organization to realize its strategic vision. “Dynamic Capabilities” emphasize the key role of strategic management in appropriately adapting, integrating, and reconfiguring internal and external organizational skills, best practices, processes, resources, and functional competences to match the requirements of a changing environment. In some organizations, the chain of foundational capabilities may create an identifiable, specific process or a strategic routine (Eisenhardt & Martin, 2000, pp. 1107-1108). In others, particularly in high-velocity markets, ongoing strategic management is essential because the dynamic capability required to capture an opportunity may require a leader to quickly orchestrate a unique configuration of processes or foundational capabilities for a particular time and purpose and then dissolve it when it loses relevance (Teece, 2012b, p. 1398). Dynamic Capabilities are therefore “meta-competencies” that orchestrate operational competencies (Teece, 1986, 2006, 2007, 2012b). As we discuss below, a leader’s management of the strategy processes is semi-continuous, and decreases or increases with the velocity of the market. To summarize, leaders cannot get what they want if they fail to manage dynamic capabilities; they cannot achieve supernormal profits (or gain free cash flow) without orchestrating the dynamic capabilities unique to the firm’s competitive advantage.

To illustrate the concept, let’s follow the map from the bottom up: the objectives we set in the *Learning and Growth Perspective* ensure that we will excel at the *Internal Processes*, which are essential to achieve our *Customer Value Proposition*, which, when achieved, will result in the *Increased Growth and Profitability* of the organization. Strategic objectives set at each level are linked to the objectives set at the levels above and below.

Here’s a simple example of the chain of cause-and-effect linkages along one strategic theme: “growth through increased sales.” To realize this value proposition, you might begin by strengthening your R&D processes and by training your people in lean management and Six Sigma techniques. This will directly improve the quality of your product design and manufacturing processes, which will improve the functionality of your product and the speed at which you can get your new products to market, which will be communicated to customers through a marketing campaign focused on innovation and product reliability, which can be expected to improve customer satisfaction and long-term customer loyalty, which leads to growth from increased sales. Through these four perspectives, the strategy identifies the chain of cause-and-effect objectives, the Dynamic Capabilities, which must be achieved for the growth strategy to be executed and value to be realized.

Leaders of an oil and gas exploration company know that to achieve growth in production at the refinery, new resources must be discovered. Their research indicates that one growth opportunity exists in securing the best positions in boutique basins. These positions must be secured (leased/purchased/permitted), requiring a team with strong partnering, negotiation and legal competencies; this team must be informed about which positions are “best” by the explorers who work in the basin; the exploration teams must possess a full range of technical competencies (e.g., basin modeling, stratigraphy, volumetrics); a team with the required competencies must be deployed into the right basin (e.g., the basins with the highest potential economic value). The team must follow an efficient operational process, must work in ways that protect the safety and security of workers and the environment, must have knowledge of the best exploration techniques, and must be able to rapidly deploy new technology. There must be enough explorers. Communication and hand-offs between these foundational competencies and processes are essential. A breakdown at any point along this chain can jeopardize strategy execution. The linking of these “best practices” in a cause-and-effect chain configures the strategic routine we call a dynamic capability.

Dynamic Capabilities, therefore, reflect the firm’s capacity to develop, deploy and orchestrate value creation and capture supernormal profit . . . the true competitive advantage inherit in each firm today. As traditional sources of competitive advantage (e.g., the ubiquitous flow of information, the expansion of markets, and easier access complementary assets) are losing their power, strategic advantage lies in the difficult to replicate dynamic capabilities that empower each organization's unique path to value creation.

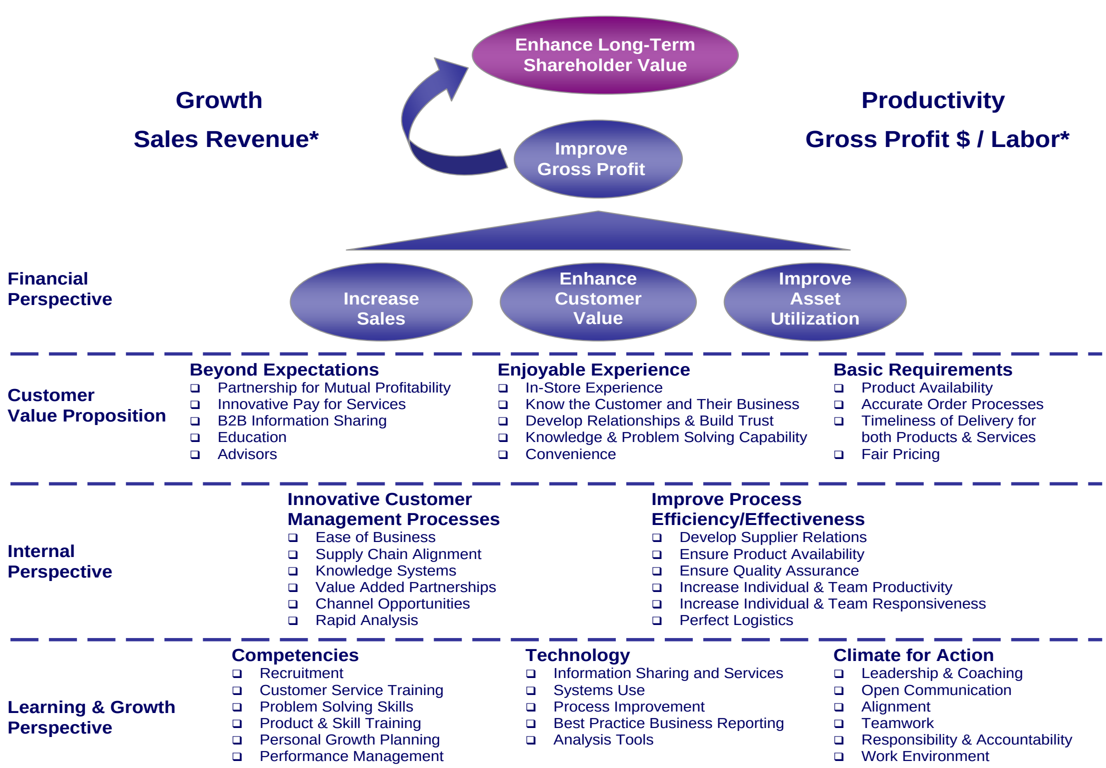
Identifying Dynamic Capabilities goes beyond uncovering organizational "fit" and also beyond a portraying an achievable financial-statement view of expected enterprise strength. Dynamic Capabilities create an organization's underlying ability to seize the most promising opportunities and are dependent on a transformational process—its leaders' ability to create, accommodate, and fashion resources from both inside and outside the firm, at home and abroad. Included are the external linkages and alliances that are common in the global economy.

6. Dynamic Capabilities and Strategic Risks

To further explicate the strategic importance of dynamic capabilities, let's consider the relation of dynamic capabilities to strategic risks. Consider the strategy map for Dave's Plumbing Supply (see below). Dave's Customer Value Proposition is "customer intimacy." He wants his customers to see his company as a model for best practices in the area of customer partnerships and innovative value-added services. When you go to Dave's you'll be treated in a way that's "beyond your expectations."

To accomplish this, at the Customer Level, Dave needs to meet the basic expectations of his customers related to product availability, accurate order processing, timeliness in delivery and fair pricing. In addition, Dave wants to super-please his customers beyond their expectations. And so at the Internal process level, he needs innovative customer-pleasing services and he needs to operate in ways that deliver this high level of customer service profitably. At the Learning and Growth Level he needs his people, systems and culture to support these processes.

Dave's Plumbing Supply



When a leader has a strategy map, one can observe how breakdowns in dynamic capabilities (specific areas in the cause-and-effect chain of links between organizational activities) carry significantly negative impacts. These negative impacts can potentially threaten the leader's ability to create economic value. It's not just the big things that can kill a strategy; it's also (and most often) the unattended details. The strategy map enables the leader to see potential negative impacts and the more desirable value creation opportunities before they occur. Foundational and dynamic capabilities can be quantified as to performance, analyzed and managed over time, thus providing the analytic foundations for strategic management. Moreover, an understanding of the impact of breakdowns in these linkages can assist managers in developing strategies that mitigate if not avoid such negative outcomes.

Returning to Dave's strategy map, strategic risks can be found at every level. Vulnerabilities are potentially encountered at every turn in the map.

What keeps Dave awake at night? He asks, "What if . . .

- I can't recruit enough smart people?
- I can't get relevant or reliable data from my software programs?
- My training is ineffective at developing people skills?
- I can't get my people to use the systems?
- My supply chain breaks down?
- I don't have the right parts in stock?
- And on and on …"

While the individual links of the strategy chain hold risk, risk is also found in the linkages between the links, that is, the communication, collaboration, routines and processes that must occur within the organization to execute the strategy. Dave has tried to account for this risk in the Learning and Growth Perspective, with Climate for Action objectives related to "Open Communication," "Alignment" and "Teamwork."

In a terrific article titled "Strategy Killers" (2002), Michael Beer and Russell Eisenstat argue that a key killer of strategy is poor communication resulting in poor coordination across businesses, divisions and borders. Poor communication impacts the quality of direction, learning and ultimately execution. Significant strategic risks exist in the potential breakdown in the linkages between the objectives in the value chain.

Strategic risks and dynamic capabilities are two sides of the same coin. Dynamic capabilities are the essential routines and processes on which an organization must focus to achieve its strategic vision and unlock value creation opportunities. Let's return to the question "What keeps the leader awake at night?" Many behavioral studies have demonstrated that *downside risk aversion and upside gain attraction are highly asymmetrical*, that is, the former is much more powerful than the latter (Kahneman & Tversky, 1979; Fiegenbaum & Thomas, 1988; Kahneman (2011). To the extent that we can develop the negative outcomes of failing to manage effectively the strategy's dynamic capabilities and how they evolve over time, we make important contributions to strategic decision-making by leaders and focus attention on the management of essential strategic routines and processes. The identification of dynamic capabilities and the strategic risks associated with a failure to manage them effectively also has significant implications for Boards of Directors in their governance and oversight functions.

Once Dave knows what it takes to achieve his strategy, once he sees what he needs to do at each level of the map and how his best practices link together to create dynamic capabilities, he can develop an assessment to identify critical gaps in his core capabilities, he can prioritize his capability improvement efforts and establish metrics to assess on an on-going basis the performance of his company in these key areas. This process of identifying and building dynamic capability is essential to strategic value creation.

7. An Iterative and Consultative Approach to Value Creation

There are many ways to create value. There is no one size fits all strategy map or list of essential dynamic capabilities. Even within the same industry, where companies sell the same product or service, the way to value creation will differ and therefore the essential strategic capabilities required to execute strategy will differ. Within education, Princeton takes a different route to profitability than the University of Phoenix, and they both differ from a small college like Southwestern University. In retail, Neiman Marcus follows a different map than Wal-Mart, and they both follow a different map than eBay. In a high-velocity market, Microsoft differs from Apple. Innovation strategies differ from price strategies, which differ from product leadership and partnership strategies. Two companies outsourcing manufacturing to China may have different levels of risk, depending on the product, the importance of the product in the product mix, and the company's capacity to manufacture the product in other locations. Down in the details of most strategies, the routes to sustained profitability and growth are unique. For this reason, strategy development and execution requires an integrative and consultative management approach to decision-making and the ability to implement the transformational process.

8. Our Practice and Dynamic Capabilities

We work with clients to capture strategic opportunities by identifying, assessing, building, deploying, managing, protecting and sustaining both foundational capabilities (i.e., core competencies, processes and best practices) and dynamic capabilities, the strategic configurations that link these foundational elements into meta-processes. In this section, we set out nine assertions related to the applicability of the concept of dynamic capabilities to strategy consulting, describe several service offerings based on those assertions, and conclude with three descriptors underpinning our client service methodology.

Assertions

Our unique difference as your strategic advisor evolves from our point of view on the relevance of "Dynamic Capabilities" for the variety of challenges that business leaders confront. This understanding is described through the following assertions:

1. The four core strategic activities—sensing, transforming, seizing and shifting—are comprehensively applicable within corporate, business and functional contexts and within non-business contexts, such as education, government and non-profits.

2. The effective execution of the sensing, transforming and shifting activities of strategy depends on the on-going strategic management of processes related to the identification, configuration and management of dynamic capabilities and the microfoundations upon which they are built.

3. The dynamic capabilities concept is relevant for diverse markets, ranging from conservative, low velocity, stable markets to high velocity, competitive, volatile markets. Dynamic capabilities empower all strategies.

4. The term "dynamic" relates to the "power" or "force" of these capabilities to create value. The focus of dynamic capabilities is on innovation (technological, organizational and business model).

5. The character of dynamic capabilities changes in response to the velocity variability of markets and to the degree to which achieving competitive advantage is relevant:

i. Dynamic capabilities within low to moderate velocity markets create long-term, stable and sustainable value. They may be common across the industry, enduring, and empirically validated. They may support a strategy that is not primarily responsive to competitors, but is responsive to missional objectives or to a challenge (e.g., curing a disease) (Eisenhardt & Martin, 2000).

ii. Dynamic capabilities within high velocity markets create "agility," which promotes rapid organizational transformations responsive to changing market conditions. These capabilities are often unique, inimitable, transient and untested (Teece, 1997, 2007, 2009. 2012a, 2012b).

6. The work of identifying, assessing, building, deploying, managing, protecting, sustaining and dissolving dynamic capabilities is best achieved through inclusive, consultative methodologies that may range from selection to iteration, depending on the velocity of the market.

7. Strategic management includes leadership oversight of both dynamic capabilities and the foundational (ordinary) capabilities that are configured to create them.

8. Dynamic capabilities and strategic risks are two sides of the same coin. A focus on strategic risks and how they are evolving or could evolve motivates the strategic management of dynamic capabilities.

9. The development and management of dynamic capabilities fundamentally depends on effective and ubiquitous learning processes.

Strategy Service Offerings

Our work therefore uniquely focuses on helping leaders *identify, assess, build, deploy, manage, protect, measure, sustain* and dissolve "dynamic capabilities" in a variety of strategic contexts. The following are examples, not a comprehensive list:

Strategies for Family Businesses

Every successful family business is an accomplishment to be celebrated. But achieving success is not easy! For family businesses, a winning strategy involves overcoming the challenges that face every enterprise AND addressing the issues unique to family ownership and management. Strategic family business challenges may include:

- transitioning the business from generation to generation (succession planning);
- establishing strategic alignment among family members;
- resolving conflicts related to the fairness of financial distributions among family members;
- identifying the potentially corrosive influence of nepotism;
- mitigating the potential of disruption caused by the retirement or unexpected death or illness of a senior family member; and

- surviving the loss of key non-family employees.

We are experienced in working with family businesses at every stage of strategy development to ensure that each challenge – whether business or specifically family-related – is met in a way that changes the game in favor of success.

We work with the leaders of family businesses to help them get what they want—clear direction toward a future that captures opportunities and mitigates threats, a strategic plan that aligns and motivates key stakeholders around a common purpose, and the ability to execute the strategy to achieve the business goal.

Wherever your family-owned business is on its path to success, we can help in a variety of ways:

- If your goal is organic growth, we have worked with hundreds of family business to develop and implement strategy that will help make that happen.

- If your goal is to grow through acquisitions or mergers, we have supported numerous family business leaders identify potential targets and provide due diligence, as well as to supply expert support related to integrating the target into the existing business.

- If your next step is a sale or public offering, we can help ensure the essentials are in place -- your business plan, management and financials and a process for selecting the right auditors, attorneys and investment bankers.

- Should you need interim management to navigate the transition in leadership from one family member to another, we can help make sure the change goes well by providing coaching and training for new family business leaders and leadership teams.

- In difficult times, we can bring our experience in turnarounds, negotiating with banks and covenant restrictions.

- When the issue is how to create the best possible board of directors, with the right relationship between board and management, we can provide counsel based on our deep experience in corporate governance.

We work with all companies to ensure they have the foundational and dynamic capabilities they need for success. When working with the family-owned business, we go an essential step further to help ensure that those capabilities unique to family-owned businesses are identified and addressed.

- Leadership assessment and development are critical to avoid the corrosive influence of nepotism. This important investment involves vetting and training family members for success in positions of responsibility in the business.

- Disciplined succession planning is key to avoid disruptions in leadership that can be caused by a retirement or a sudden death or illness.

- Retention strategies are key to avoid the loss of key people who are not family by offering them recognition through financial rewards, opportunities for advancement and perhaps even an ownership stake.

- Conflict management and resolution processes enable families to preempt potentially devastating disputes that have brought many family-owned businesses to grief.

- Strategic communications can ensure clear understanding of the business' strategic goals, and ensure alignment between them and the goals of the family. Focusing on communications as a core business process through a well-defined network of formal and informal tools promotes transparency, feedback and the speedy replacement of confusion with clarity for everyone involved – whether family or not.

Finally, using a disciplined set of behavioral tools, uniquely applicable to family businesses, we help ensure that organizational and individual behaviors – from the executive suite to the front line – consistently and effectively support accomplishment of strategy through consistent application of process and effective deployment of both foundational and dynamic capabilities.

Whatever the challenge your family-owned business faces, whatever you want your business to be, BRG's strategy advisors offer a complete package of support that works with you at every step of your journey.

Strategies to Achieve Competitive Advantage in High Velocity Markets

This work focuses on a firm's ability to build, integrate and configure internal and external resources to address rapidly changing markets. Capabilities that create organizational "agility" are the prime sources of wealth creation and capture in markets characterized by rapid technological change. In such business environments, competitive advantage resides 'upstream' of product markets and rests on the firm's idiosyncratic and difficult-to-imitate resources.

This work analyzes internal technological, organizational, and managerial processes to identify, develop, accumulate, combine, and protect the unique skills and capabilities that lead to competitive advantage (Teece, 1997, 2007, 2009. 2012a, 2012b).

Strategies for Sustainable Growth in Low to Moderate Velocity Markets

This work focuses on the dynamic capabilities that empower long-term sustainable growth in relatively stable business environments. Such capabilities may share commonality across the industry, focusing attention on execution. They may be empirically-validated best-practices, requiring processes related to selection, rather than iterative development (Eisenhardt & Martin, 2000).

Strategic work may focus on competitors, but also may aspire to achieve something consistent with the firm's mission or overcoming a challenge. Consider the following examples

- A major oil and gas company: "We exist to power civilization—to meet our share of the energy needs of the world, while maintaining our current position among our competitors." The challenge is to build the capability required to meet its share of the world's energy needs today and into the distant future, sustaining the firm's long-term viability and relative health among its competitors (partnerships with competitors are essential to value generation). In this scenario, the "competitor" may partner with the firm to accomplish the mission.

- A large medical equipment company: "Restore people to full life and health." The "competitor" is the disease.

- A cancer research center: “Marketable research.” Responding to the challenge of a decrease in federal funding and donor support, the firm needs to transition from “pure science” projects to those resulting in practical medical applications. The “competitor” is the challenge.

Strategies for the Multinational Enterprise: Jazz and the Centralized-Decentralized Polarity

An understanding of the centralized-decentralized polarity is essential for effective strategic management of the multinational corporation. Johnson (1986) describes the issues leaders face in managing the multinational or dispersed corporations as a polarity to manage, not as a problem to solve. As a polarity, the poles, what occurs at the center and what occurs away from the center, are opposite, but are both necessary for corporate system to work efficiently. Like a car battery, with a positive and negative pole, both must be working at 100% for the battery to have energy. Likewise optimizing the center (everyone on the same page) and the distant parts (responsiveness in distinct geographic markets) within the multinational enterprise is required. The conflicts between these two poles can never be solved, but must be constantly well-managed to keep the organization from experiencing the downside of both: burdensome bureaucracy at the center and lack of accountability away from the center.

Orlikowski and Hofman (1997) and Macredie and Sandom (1999) have developed an improvisational method for managing the centralized-decentralized polarity present in all multinational enterprises. The model is based on jazz. For Orlikowski and Hofman, change emerges and is opportunity-based, rather than anticipated (p. 13). Members of a jazz band do not decide beforehand what notes to play, but do decide what musical composition will form the basis for their performance. Once the performance begins, each player is free to explore and innovate. Yet all play within a common rhythmic structure and have a shared understanding of the genre (p. 13). Similarly improvisational change is not pre-defined, but a series of changes, unpredictable at the start, that evolve from practical experience with the new technology (p. 14). The improvisational model, therefore, encourages leaders of technological change to start with an objective, not a plan, and proceed in an ad hoc fashion responding to conditions as they arise.

Macredie and Sandom (1999) employ the improvisational model to implement an information systems change in a business context that the creators of the model did not originally envision as ideal. Orlikowski and Hofman (1997, p. 18) had argued that all three of the following enabling factors must be equally present in the organization for their model to succeed: (1) dedicated resources must be allocated to provide ongoing support to the continuous change process; (2) the culture of the organization must be adaptable; and (3) the technology must be open-ended (i.e., locally adaptable by end-users, with features that can be customized to create new applications). Macredie and Sandom’s research effectively applied the improvisational model in a contrasting organizational context, where these three enablers were not equally present (1999, pp. 249-250).

Essential here is the ability to link and leverage knowledge, and managerial processes that encourage and constrain the ability to adapt to relevance processes that are standardized at the center (Teece, 2013),

Strategies for Combination Events (Ecosystems, Partnering, Mergers, Acquisitions)

Portfolio Strategy expresses the leader’s decisions about how the objectives will be achieved through the combination of the corporation’s holdings; that is, the missional, financial or operational purpose of the body of holdings in the portfolio. Decisions about what to buy, sell or hold are made based on the degree to which a particular holding aligns with the objectives of the strategy. Sensing capabilities (knowledge-gaining and decision-making routines) inform transactional decisions.

M&A activity is central to corporate strategy. Here seizing and transforming capabilities play a critical role. The leader makes changes to the portfolio to optimize its value relative to its objectives. Due diligence is performed on potential targets to ensure that the target is what it represents itself to be and that the degree of its integration (stand-alone to full) will enable realizable expected value post combination. Once the deal is finalized, leaders integrate and transform the target to optimize the synergies envisioned

Corporate strategy activities are not limited to traditional vertically-integrated firms. Today, particularly in high velocity markets where corporate agility is essential, new forms of combining events are consummated to create mutually beneficial corporate ecosystems. In such arrangements, structured informally or contractually, independent firms agree to align together for a strategic purpose, and dissolve when the relationship is no longer strategically relevant.

Dynamic Capabilities and Learning

- Executive education for business leaders that is relevant to their learning and growth needs for related to strategy execution. Education developed, configured and delivered in conjunction with professors at leading academic institutions and delivered timely in a setting (in person or informally) with activities, board/ digital simulations and case studies that are relevant to the performance of a specific job, role or dynamic capability.

- Corporate university strategy, development, design and delivery assistance to inculcate into organizations the behaviors to create value through strategy execution and identify and harness dynamic capabilities necessary to execute strategy

- Leadership coaching

Dynamic Capabilities and Leadership

- Leverage Management Research Group analysis and tools through certified MRG and then BRG leadership assessment and coaching process

- Identify and build the fundamental capabilities to lead the firm

- Identify the nurturing capabilities to strategic management and the power to lead the execution of strategy

Dynamic Capabilities and Rapid Innovation

Technological/ product innovation

- Successful innovators apply a number of core principles to innovate reliably and repeatedly
    - Set a clear ambition and focus for innovation
    - Think about innovation as a portfolio
    - Use multiple types of innovation
    - Be intensely curious about customer (and non-customers)
    - Continuously challenge the status quo to reframe opportunities
    - Look outside company and into other industries for insights, ideas and opportunities
    - Take a disciplined approach to innovation – and to building innovation capabilities – to ensure ongoing success
        - Core: Optimizing existing products for existing customers. Making incremental changes to existing products and incremental inroads into new markets.

        - Adjacent: Expanding from existing business into “net new” business. Leveraging something the company does well into a new market space and can share some characteristics with core and transformational innovations
        - Transformational: Developing breakthroughs and inventing things for markets that don’s yet exist. Creating new product or service offerings – if not whole new businesses – to serve markets and customer needs which may not yet exist
    - Understand and establish R&D ROI, to guide the organization to pick the projects that drive the highest ROI

Effective leaders and their teams think about strategy every day. In many companies the yearly strategy retreat has been replaced by a year-long process: strategic assumptions are continuously tested; leaders continuously discuss and tinker with the strategy, revising and strengthening it; dynamic capabilities are closely managed, data is constantly analyzed, strategy is continuously communicated, embodied in the operating plan, and monitored through real-time measurement systems. Teams are trained to execute the strategy and the process cascades down throughout the whole organization until every person understands their role, and is aligned in achieving the mission.

Strategic management is a continuous process. As a strategy advisor I work to help you discover and achieve what you want.

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