

Setting Strategic Direction

By Rich Horwath



“Clarity of direction, which includes describing what we are going after as well as describing what we will not be going after, is exceedingly important at the late stage of a strategic transformation.”
Andrew Grove, former CEO, Intel

Think back to when you were a kid. Can you recall a

time when you got lost? Maybe it was at the mall, a supermarket or museum. Maybe it was just for a few moments, when you couldn't find mom or dad or Aunt Susan. Can you recall the feeling? Were you anxious, frightened or downright terrified? And do you remember the joy that came with finding them again?

Becoming lost can be a quickly relieved scare for a child, but in business, being rudderless and without direction can be a source of chronic frustration and failure. In a study of 89 companies, the group with both superior profit and sales versus others, showed the biggest difference was agreement with the statement, "strategic planning in our enterprise has led to an improved competitive position." Unfortunately, in an APQC study on the skills managers need versus the skills they possess, the number one skill deficiency identified was strategic planning.

For you and your organization to be successful, it's critical to understand how to set strategic direction. In looking at 100 companies, we find that more than 70 percent of successful businesses started from a process of strategic planning. Consider your current plan: is it a clear, concise and motivating driver of your daily activities? If not, sooner or later you will lose significant business to your competitors. Research out of Harvard Business School over a ten-year period showed that companies with clearly defined and well-articulated strategies on average, outperformed their counterparts by 304 percent in profit margin, 332 percent in total sales and 833 percent in total return to shareholders. When asked what a CEO needs to focus on, Hewlett Packard Enterprise CEO Meg Whitman said, "First, you need the right strategy. Less than perfect execution against the right strategy will probably work. A 100% execution against the wrong strategy won't."

As important as the plan itself is the thinking that goes into it. Market trends, customer value drivers and the competitive landscape will all continue to evolve at different rates, and at some point, your current strategies may need to evolve as well. If you only rely on what worked in the past and are unable to generate new insights, your products and services may become obsolete.

When 10,000 senior executives were asked to identify the leadership traits most important to their organization's long-term success, executives chose "strategic" 97 percent of the time. Not only is being

strategic the most critical trait of a leader, it also dramatically improves their team's performance. Research shows that team members are 40 percent more committed when they believe their leader has a clear strategic direction.

When a group of managers are not effective at setting strategic direction, the results can be devastating. The consumer electronics retailer Circuit City had an impressive rise to dominance in its industry, being identified as one of the top eleven companies in the world over a 40-year period by author Jim Collins in his book, *Good to Great*. In reviewing his leadership of the company to these heights of success, Alan Wurtzel, former CEO & creator of Circuit City wrote, "Of all the good advice I received from the board over the years, creating a long-range plan and simplifying the business were clearly the best. They forced me to think systematically about the purpose and nature of strategic planning, about the outside world, about retail trends, and about Wards' strengths and weaknesses."

Unfortunately, after Wurtzel stepped down from his leadership role, the company lost its way and moved into several unrelated areas, such as used car superstores (CarMax) and an alternative to DVDs called DIVX. During this time, they underestimated the growing competitor Best Buy and lost touch with their core competency and capabilities. In his cleverly titled book, *Good to Great to Gone*, former CEO Wurtzel lamented, "Whatever chance Circuit City had to retool and again challenge for industry leadership was squandered by the CEO's inability to set a bold and coherent plan and execute it. By undervaluing, and then discontinuing, long-range strategic planning, he was, in effect, driving down a dark road without headlights. He faced many serious challenges that needed to be attacked decisively and in a coordinated manner, but without a strategic plan he was doomed to fail... The lack of attention to strategic planning had run the company into the ditch." In 2008, the company that just seven years ago was touted as one of the top eleven in the world filed for bankruptcy.

There are three C's to setting strong strategic direction for your business: clear, cut and concise.

Clear. Setting strategic direction boils down to answering just two questions:

- 1. What are you trying to achieve?**
- 2. How will you achieve it?**

While the team needs to think about and discuss the market, customers, competitors and the company, these two questions form the foundation of any good plan. If you and your group can gain clarity on your goals (*what* you are trying to achieve) and your strategies (*how* you will achieve them), you're ahead of the pack.

One important element of being clear is reducing the clutter in your thinking and plan. Too often, strategic direction is unclear because the plan becomes a laundry-list catch-all of everything that's happening in the business. Clear strategic direction limits the elements in the plan to what will make or break the business this year and jettisons the rest. A litmus test of this issue is your SWOT Analysis. If your SWOT includes more than 3-5 entries in each section, it's a sign that the thinking and plan are unclear. How clear is your team's plan on what you want to achieve and how you'll achieve it?

Cut. Movie fans enjoy this time of year as the film industry award ceremonies are in full swing, culminating with the Academy Awards. Since 1981, not a single film has won Best Picture without at least being nominated for Best Editing. In fact, in about sixty-six percent of the cases, the movie capturing the Oscar for Best Editing has gone on to win Best Picture. Editing is the process of removing irrelevant, trivial and unimportant elements to make the film stronger. The editor uses intentional subtraction to add life to the storyline, dialogue and characters.

While not formally included in the job description, one of the main responsibilities of a leader is to act as the *editor* of the business. A good leader is continually monitoring products, services, processes and people's habits for things to cut out if those things are no longer adding value. In the strategy workshops I facilitate, an exercise that generates great interest is when the group discusses what they should stop doing. Too often, projects, initiatives, reports, and tactics have continued to receive resources even though they have outlived their usefulness. Think about your business: what areas should you edit—or cut off—from time, attention, people and budgets so you can add value in other areas?

Concise. One of the favorite sayings around our dinner table is when one of us (OK, usually me) starts to finish a story with "To make a long story short," my kids chime in with "Too late!" There is something to be said for brevity, especially when talking with teenagers. Brevity can also be a powerful tool in setting strategic direction.

Being concise heavily relies on the first two C's: clear and cut. If there's a lack of clarity in one's thinking, and trade-offs or cuts haven't been made, then it's extremely difficult to be concise. This is most often evident in the huge PowerPoint decks that make up people's plans. As strategist Keniche Ohmae wrote, "Inability to articulate a strategy in a single, incisive, natural-sounding sentence is a sure sign that there is something wrong in the strategy itself." And Airbnb CEO Brian Chesky reinforced the importance of being concise when he said, "If you can't fit it (strategic plan) on a page, you're not simplifying it enough. I told my team they have to put the entire plan on a page this big by next week--same size font."

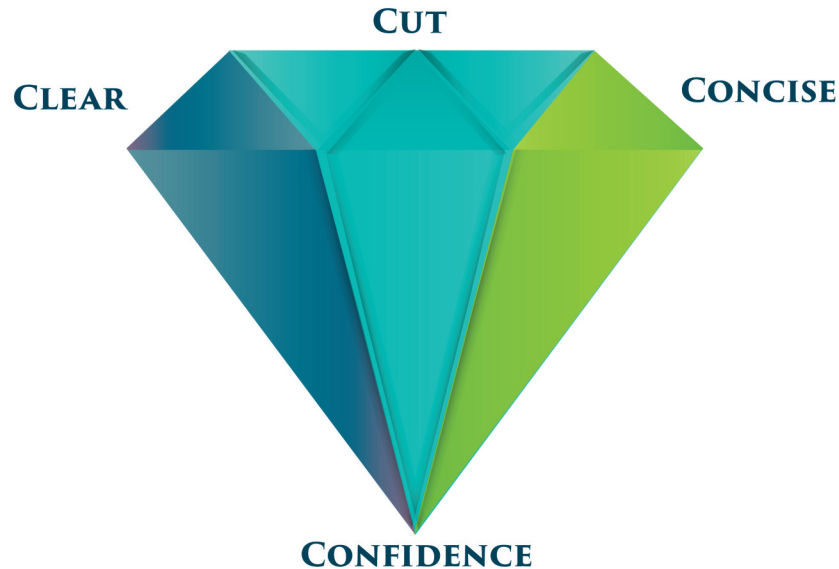
In my work facilitating strategy sessions with both start-ups and Fortune 500 companies, I've found it helpful to reduce the complexity of the plans by having the teams develop a StrategyPrint®, or two-page blueprint, which becomes their plan. Since it's only two pages in length, the StrategyPrint®

ensures their plans only include the make-or-break insights on page one and the corresponding action plan (goals, objectives, strategies and tactics) on page two. Is your plan a concise guide to your strategic direction, or a long, meandering PowerPoint deck that includes everything but the kitchen sink?

In the computer industry, vaporware is typically hardware or software that is announced but is never

manufactured and in many cases, doesn't exist. What passes for a plan in many organizations is VaporStrategy—a giant to-do list of tactics with goals or strategic imperatives masquerading as strategy. To set strong strategic direction for your business, you need to be clear, cut and concise. And if each of those criteria are met, you'll realize the fourth C of confidence in knowing that you and your team are as prepared as possible to maximize your success.

STRATEGIC DIRECTION



*Rich is the founder and CEO of the Strategic Thinking Institute. He leads executive teams through the strategy process and has trained more than 100,000 managers to develop their strategic thinking capabilities. Rich is a former Chief Strategy Officer and professor of strategy and his work has been featured in **Forbes**, **Fast Company**, and the **Harvard Business Review**. He is a **New York Times** and **Wall Street Journal** bestselling author on strategy and has appeared on ABC, NBC and FOX TV. Sign up to receive your free copy of **Strategic Thinker** by visiting www.strategyskills.com*



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