Strategy beyond the hockey stick

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This book is about unlocking big moves to beat the odds in business. This is anchored in empirical evidence from thousands of companies.

In the strategy room, human bias and social dynamics can prevent the necessary big moves from getting on the table, let alone getting executed.

The strategy room is full of so many competing agendas and social games that you might have sometimes wondered why people spent so much time and effort in the analysis and presentation preparation in the first place.

The outcome of all these dynamics is the hockey stick, confidently showing future success after all the too familiar dip on next year's budget. Truly, if ever there was one, the hockey stick is the icon of the strategy process.

We found that in most strategy rooms, there is not enough data, enough of the right data.

The materials in strategy rooms today provide detail, but no reference data with predictive power. Interestingly, the more detailed information you have , the more you lead yourself to believe that you know and as your confidence grows, more the risk of arriving at the wrong decision.

Strategy is precisely the wrong problem for human brains and the right problem for playing games, especially when the 'inside view' goes unchecked.

Presenters in strategy meetings often seem to not seek a conversation at all. Instead they appear to deflect as many questions as they can saying that they are ‘ trying to get through the materials’

Peoples egos, their bonuses, their careers, their status in the organization, the resources they get to fund the growth of their business all depend to a large extent on how convincingly they present their strategies and prospects for their business.

Overconfidence is self reinforcing too. It leads people to ignore contradictory information which makes them more confident, which makes them more likely to ignore contradictory information.

Strategy processes are also prone to survivor bias. There is no voice coming from the ‘graveyard of silent failures’ because we only see what happened, not what didn’t happen.

Our experiences are more shaped by learning from survivors, and in a way, we are all survivors, our strategy rooms are fraught with biases related not having failed big time.

Here are a few of the more prominent ways that managers may act in their own interest : a. sandbagging the plan, b. the short game. Someone else will run this business in three years so just milk it till then, c. my way or your problem,,, I know this business so you better trust me, d. I am my numbers .. I get judged by the numbers I deliver.

You think people are all pulling in the same direction, but in reality, they have very different motivations and certainly asymmetric information.

Strategy involves a complex set of motivations in a complex game.

Companies that rapidly reallocate capital to new growth businesses outperform those that take a steady state approach.

Strategy processes often generate a high level commitment to making a change, but too often as with a failing cigarette quitter, the processes don't surface and deal with other prior commitments that immunize companies against change.

At its heart, business strategy is all about beating the market, or in other words, defying the power of ‘perfect’ markets to push economic surplus back to zero

Economic profit captures the two parameters that we know are driving share price performance over time – return on invested capital and growth.

Size isn’t everything, but it is not nothing either.

When things are going well, we attribute results to our managements unique recipe, when times are tough, its an industry problem or bad luck.

Where to play is one of the most critical choices of strategy

The role of the industry in a company’s position on the power curve is so substantial that you would rather be an average company in a great industry than a great company in an average industry.

CEOs attribute only 50 % of decisions on target setting and strategy to facts and analytics- just 50 %. The other half they attribute to the strategy process and the dynamics in the strategy room.

Social dynamics in business reward over confidence.

When it comes to forecasting, several silent killers creep in-lack of a proper baseline, errors about performance attribution and the way we deal with uncertainty.

Often performance is mistaken for capability.

How do people deal with uncertainty in the strategy room?

A. by ignoring uncertainty

b. pretending to deal with uncertainty

Strategy plays out in a world of probabilities, not certainties. But the odds are knowable. Eight per cent of mid tier companies manage to jump to the top quintile of the power curve over a decade.

The mobility matrix

Company Starting Position 2000-2004

	Bottom	Middle	Top
Top	15%	26%	59%
Middle	14%	78%	8%
Bottom	43%	40%	17%

Company ending position 2010-2014

Companies that move up the curve deliver ROCE and growth better than industry, the next is deliver ROCE and no growth , third is growth and no ROCE and the last group is no growth and no ROCE. If you are in the fourth bracket, then there is no lift off at all along the power curve.

Our data for 2393 of the largest companies, covering 15 years, 127 industry sectors and 62 countries revealed ten levers for the odds of success.

The 10 variables

Endowment
1. Size in revenues
2.Debt capacity
3. Past Investment in R and D
Trends
4.Industry growth Trend
5.Geographic growth trend
Moves
6. Mergers , acquisitions and divestments program
7.Resource re allocation
8. Capital Expenditure
9.Productivity Improvement
10.Differentiation improvement (Gross margin)

If you face a disruption, like kodak did, you have two choices – either transform your industry(consolidation etc.) or decide to leave the industry.

Changing one’s industry does not happen overnight. Rarely is a business free to move from one industry to another, except private equity players and venture capitalists.

If you are going to stay in the same industry, then you have to find ways to alter the dynamics of your industry to boost performance.

We found that businesses headquartered in emerging markets not only benefitted from the growth in emerging markets but also delivered stronger growth performance in developed markets.

To differentiate, you need privileged insights. These come from moving from high level trends to investable pockets

Incumbency in companies makes it difficult to deal with disruptions. Industry leadership can make it hard to act on the writing on the wall- but not impossible.

The 4 stages of a disruptive trend are:

1. Detectable
2. Clear
3. Inevitable
4. New normal

Over a decade winning companies make five big moves.
Big moves are risky. CEOs are more comfortable delivering the quarter as opposed to thinking a decade ahead.

The myth that 75 % of M and A does not add value is a myth. Success depends on the M and A activity the company runs. The more M and A you do, the better you get at integration and also delivering synergies.

CEOs who aggressively re allocate capital in the early years of their tenure tend to keep their jobs compared to people who go slow on it.

Companies that dynamically shift more than 50 % of their capital expenditure across business units over ten years deliver 50 % more value than companies that move it at a slower speed over the same time frame.

There must be real discipline and robust processes for capital allocation, if a project does not deliver cost of capital, the it must be shelved

Capex in itself does not make a strategy successful. Additional capacity is just excess capacity unless there is an underlying demand for it.
Spending capex can be a positive or negative depending on whether it is based on privileged assets or insights.

Differentiation – a company has to improve its gross margins by 30 % better as compared to industry average for it to move to the top quintile over time.

Big moves make for good strategy, are really valuable, they are non linear, they must be big relative to your industry and compounding. Big moves are asymmetric.

Your strategy has a chance if you have eight big shifts.

The 8 big shifts

FROM	Annual planning	TO	Strategy as a journey
FROM	Getting to YES	TO	Debating real alternatives
FROM	Peanut butter	TO	Picking your 1 in 10s
FROM	Approving budgets	TO	Making big moves
FROM	Budget Inertia	TO	Liquid resources
FROM	Sandbagging	TO	Open risk portfolios
FROM	You are your numbers	TO	Holistic perspective on performance
FROM	Long range planning	TO	Forcing the first step