

Mapping an agile future

Building and perfecting a strategic management system for long-term success. By **Pierre Hadaya** and **Bernard Gagnon**



A strategic management system (SMS) is important for the agility and long-term success of any organization. It is a comprehensive and integrated set of activities and mechanisms that links strategy formulation and planning with operational execution¹ and acts as the foundation for all key decisions. Its importance is all the more critical in today's highly competitive and disruptive environment, where 50 to 90 percent of strategic initiatives fail² and where the life expectancy of organizations is in a serious decline. Yet, despite all that has been learned since the launch of the business strategy revolution in the 1960s, most organizations are still having difficulties building and perfecting such a system. The objective of this article is to provide guidance to help organizations in this effort so they can map an agile future.

Strategy and operating model

Prior to discussing the building of an SMS, the relationship between strategy and operating model must be made clear. Indeed, these two key concepts cannot be dissociated from one another. A strategy provides a shared long-term vision for the organization and determines how it wants to compete for customers, owners, partners and employees. To do so, a strategy defines a value proposition for each of these four stakeholder groups. However, to deliver on these value propositions, the operating model (in other words, how the organization functions) must be designed for this specific purpose and built as such (in other words, aligned). The key components of an operating model are capabilities, processes, organizational structure, information systems, equipment, facilities, brands, information, knowledge, natural resource deposits³, policies, and the organizational culture.

The shortcomings

Our research and that of others indicates that most SMSs have five major shortcomings. First, most organizations poorly devise their strategy. Many create something they think is a strategy, but that actually isn't (for example, a new product or enterprise resource planning (ERP) are not strategies). Others fail to articulate multiple strategy alternatives and select the most appropriate according to their suitability, acceptability, and feasibility.

Second, executives fail to provide the leadership needed to make the strategy a success. Indeed, they devote their time to short-term activities and neglect to invest the considerable time and effort needed to communicate and explain the strategy to all, demonstrate its importance, engage people into it, and bring about the necessary culture changes. They also fail to establish proper accountability and to be sufficiently responsive to events.

Third, the strategic initiatives required to align the operating model to the new strategy are inadequately selected and prioritized and executed in a suboptimal order. Because the typical strategic plan includes only the strategy, high-level objectives and broadly defined initiatives, it does not adequately specify what needs to be done and when. People thus interpret the strategic plan in their own way, start initiatives designed more to solve local issues than to make the strategy work, and carry them out in silo mode and in an order that inhibits synergies. Furthermore, they focus more on respecting the time and money allocated to these initiatives than to maximizing benefits.

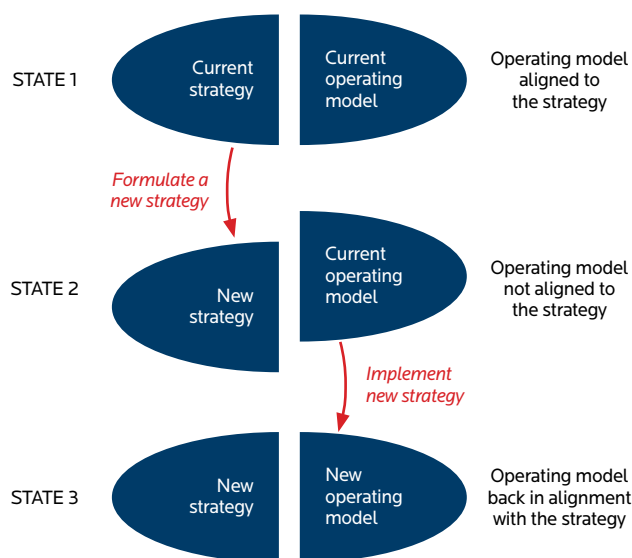
Fourth, the long-term financial forecasting and yearly budgeting practices hinder the delivery of the strategy. The long-term financial forecast is too often created

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Figure 1: The strategy-operating model-alignment cycle



without an adequate understanding of the strategic initiatives to be carried out, including their costs, benefits, and timing. As a result, it is overly optimistic – and when reality strikes, people lose confidence in the strategy or in the organization's ability to make it work. In addition, the yearly budget practice is too rigid and greatly reduces the fund-allocation agility needed to align the operating model to the new strategy rapidly.

Fifth, SMS activities are performed in silo mode. Organizations don't invest the effort required to interconnect these activities into a well-oiled system.

The groups of activities

To eliminate the above shortcomings, organizations must perform five important groups of activities: Formulate, Implement, Execute, Engage, and Govern.

The first three form a cycle. The purpose of the **Formulate** group of activities is to devise the strategy. This entails analyzing its external and internal environments, formulating and analyzing a set of strategy alternatives, and choosing the most suitable, acceptable, and feasible. When these activities lead to a new strategy, they also invariably lead to a misalignment between this strategy and the current operating model.

The purpose of the **Implement** group is to align the operating model to the new strategy (Figure 1). This entails identifying and clearly determining the scope of each strategic initiative, as well as sequencing and executing them properly.

The purpose of the **Execute** group is for the organization to deliver the stakeholder value propositions defined by its strategy on a day-to-day basis. This

entails executing all primary (in other words, R&D, manufacturing, logistics, sales, and marketing) and secondary (in other words, procurement, IT, HR, and finance) processes at the heart of the operating model in perfect alignment to the strategy (Figure 1).

The purpose of the **Engage** group is to build employee commitment and remove barriers to make the strategy work. This requires that leaders communicate and explain the strategy, the initiatives that will be carried out and when, the current priorities, and the progress made so far, as well as cascade objectives and reward people for their achievements. This also requires that leaders take account of the feedback they get from employees throughout the organization.

The purpose of the **Govern** group is to make decisions regarding the strategy, including its implementation and execution. This entails continuing to monitor external and internal environments, learning from the results of this monitoring and making adaptation decisions whenever needed. These Govern activities are performed by, among others, the board of directors, the executive committee, and the program and project sponsors and teams.

The five groups of activities must be conducted continuously and simultaneously. To make this clear, let's take the example of a North American airline that formulates a new strategy calling for the addition of services to Asia. As the airline implements this new strategy by purchasing aircrafts and setting up operations in Asian airports, it must continue to execute its previous strategy of offering services only in North America until its new strategy is implemented. All the while, it must engage its employees in and govern these activities.

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Cirque du Soleil's Formulate activities have enabled it to create in the 1980s an uncontested new market space that it still dominates today.⁴

Fashion retailer Zara's implement activities, anchored on a minimal IT infrastructure and process standardization, has enabled the company to open more than 2,000 stores in more than 90 countries in less than 30 years.⁵

Toyota's execute activities that leverage its Lean approach has enabled the car manufacturer to dominate the consumer reports list for decades.

CitizenM has a bonus policy (Engage) that lets its ambassadors, not its executives, earn (or lose) a 30 percent bonus each month has enabled the affordable luxury hotel chain to expand worldwide and have a 90 percent occupancy rate and staff costs 50 percent below industry average.⁶

Finally, investor and hedge fund manager Ray Dalio's 'radical transparency' in the workplace (Govern) has enabled Bridgewater to become the world largest hedge fund.⁷

Perfecting the SMS

Conducting the five groups of strategy activities, or even being very good at some of them, is not enough for long-term success. Organizations must excel at them, not once, but repeatedly. To do so, they must perform highly in each of the SMS's groups of activities, integrate them tightly, and continuously strive to improve them.

To become a high performer in the five groups of activities, long-standing practices must be adopted. Examples of such practices include, but are not

limited to, having a shared long-term vision, a chief strategy officer, a strategy scorecard, clearly defined decision rights, regular executive meetings, and executive initiative sponsors; performing sound project and program management and experimentation; and aligning resource allocations with strategic priorities. Before integrating any practice, organizations must ensure they clearly understand it and that it will truly improve their SMS for the long run.

To integrate the activity groups tightly, organizations must connect them so they continuously and correctly exchange information, lessons learned, events, insights, issues, and decisions. This is critical for coordination and to endow organizations with strategic and transformational agility.⁸ To achieve this, organizations must structure the SMS activities into a tightly integrated set of processes that embed the practices as mentioned above and others.

To improve the performance of their SMS continuously, organizations must constantly be on the lookout for novel practices. For example, leading organizations are replacing their yearly budget process with a monthly rolling financial forecast that lets them be much more agile in their fund allocation and resource utilization. Other organizations are adopting the new management discipline of business architecture that enables them to be better in analyzing their strengths and weaknesses and assessing the feasibility of their strategy. It will also help them to design their target operating model as a synergistic whole instead of piecemeal, as well as select and scope the strategic initiatives, and elaborate a roadmap to carry them out in a more effective, efficient, and agile manner than ever before.

Building and perfecting a high-performance SMS is not easy. Fortunately, the rewards are high. In addition to enabling organizations to reap maximum benefits from their strategic initiatives, such a system in itself can become a source of competitive advantage. ■

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