

Illustrating "What is a Sound Strategy System?"

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Issue 39, spring 2024

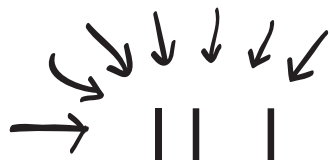
ISSN
2995-1550 (digital)

Cite this article

Hadaya, P. and Cloutier, L.M. (2024). Illustrating "What Is A Sound Strategy System". *Strategy Magazine*, (39), 32-35.
<https://strategymagazine.org/stratarticles/issue-39/104-illustrating-what-is-a-sound-strategy-system-a-systems-thinking-perspective>

Article abstract

A sound strategy system (often called strategy management system) is essential to the long-term success of any organization. It is the comprehensive and integrated set of continuously executed strategy-related activities that permits an organization to be effective, agile, and efficient in today's increasingly competitive, global and technology-driven market. Yet, despite its importance and all that has been learned since the launch of the business strategy revolution in the 1960s, most organizations are still having great difficulties devising and implementing such a complex system. The absence of a sound management system, in turn, is probably the key factor explaining why 50% to 90% of strategic initiatives fail and why the life expectancy of organizations is in a serious decline. To begin addressing this important gap, the objective of this article is to make an initial attempt to illustrate the key components of a strategy system and how they are related to one another. To do so, we rely on a modeling technique from systems thinking. In addition to identifying the key components of such a system, this technique enables us to capture the feedback loops amongst these key components that strategists and executives must understand and put in place for their organization to be effective, agile, and efficient to succeed in the long-term.



ILLUSTRATING “WHAT IS A SOUND STRATEGY SYSTEM?”

A SYSTEMS THINKING PERSPECTIVE



BY PIERRE HADAYA
AND L. MARTIN CLOUTIER

A sound strategy system (often called strategy management system) is essential to the long-term success of any organization (Hadaya and Gagnon, 2020). It is the comprehensive and integrated set of continuously executed strategy-related activities that permits an organization to be effective, agile, and efficient in today's increasingly competitive, global and technology-driven market. Yet, despite its importance and all that has been learned since the launch of the business strategy revolution in the 1960s, most organizations are still having great difficulties devising and implementing such a complex system. The absence of a sound management system, in turn, is probably the key factor explaining why 50% to 90% of strategic initiatives fail and why the life expectancy of organizations is in a serious decline (The Economist Intelligence Unit Limited, 2017). To begin addressing this important gap, the objective of this article is to make an initial attempt to illustrate the key components of a strategy system and how they are related to one another. To do so, we rely on a modeling technique from systems thinking. In addition to identifying the key components of such a system, this technique enables us to capture the feedback loops amongst these key components that strategists and executives must understand and put in place for their organization to be effective, agile, and efficient to succeed in the long-term.

AN INTRODUCTION TO SYSTEMS THINKING

Systems thinking is both a way of representing the structure of a complex system using the feedback principles of system dynamics and a way to analyze it (Lane, 1994). System dynamics was introduced by Jay W. Forrester (1958) to support the development of systems of different nature, whether procurement supply chains, business processes, or broader phenomena like climate change (Stermann, 2000). It uses level-and-rate variables to quantitatively model, measure and produce results to answer specific questions of interest regarding evolving change over time. The system dynamics occurs because of the level-rate interaction over time. One of the distinguishing features of system dynamics, compared to other methods and techniques is that, in continuous time, it helps track changes over time in the variable of interest by capturing the reinforcing and balancing complex interactions among the feedback loop structure.

Systems thinking can be viewed as a technique that mobilizes the principles of feedback found in system dynamics but qualitatively. It uses a specific syntax to create feedback loops (see Figure 1). A single polarity arrow indicates the direction of influence (Left panel). For example, the arrow with the “+” sign indicates that the cause-and-effect variables move in the same direction, while an arrow with the “-” sign indicates that the cause-and-effect variables move in the opposite direction. In turn, the arrow with the “=” sign is a time delay mark and is used to represent the time lag or rarity of occurrence between the variables.

Furthermore, a reinforcing feedback loop “R” is identified when the number of polarities among the variables in a

feedback loop is even while a balancing feedback loop “B” appears when the number of polarities among the variables is odd. The causal loop shown in the right panel of Figure 1 represents a reinforcing feedback loop between two variables where the *Leadership Relationship with Stakeholders* supports the *Collaboration*, and the *Collaboration* supports the *Leadership Relationship with Stakeholders*. Thus, systems thinking is useful to examine interactions between a very small to a very large set of variables in multiple reinforcing and balancing feedback loops. It helps to synthesize the overall set of variables in a complex system as well as to analyze the details found within the broader systemic whole.

THE KEY COMPONENTS OF A SOUND STRATEGY SYSTEM AND HOW THEY RELATE TO ONE ANOTHER

As mentioned above, a sound strategy system is the comprehensive and integrated set of continuously executed strategy-related activities that allows an organization to be effective, agile and efficient in today's increasingly competitive, global, and technology-driven market. The strategy-related activities can be classified into the following five groups (Hadaya, Stockmal *et al.*, 2023):

1. *Formulate* – to devise the strategy.
2. *Implement* – to transform how the organization functions (i.e., the strategy operating model) to be able to execute the new strategy.
3. *Execute* – to deliver value to the organization's stakeholders, as defined by the strategy.
4. *Engage* – to do all that is necessary to enable and get internal stakeholders to commit themselves to make the strategy work.
5. *Govern* – to oversee the previous four activity groups.



To clarify the idea of “integrated set of continuously executed strategy-related activities,” we can use 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 current strategy of offering services in North America until its new strategy is fully implemented. In addition, it must engage its employees in and govern these activities.

Figure 2 is a systemic representation of a sound strategy system using the systems thinking’s causal loop technique. Because it comprises a large set of key variables, a simplified version of causal loop diagram that only considers the influences without the feedback loops’ polarity is presented. To describe this modeling, we’ll proceed in two steps. First, we explain the activities at the heart of each activity group as well as their respective internal feedback loops. For more information on the particularities of these activities, see Hadaya, Stockmal *et al.* (2023). Second, we explain the key relationships between the activities from different groups (i.e., external feedback loops).

THE FIVE GROUP OF STRATEGY ACTIVITIES IN DETAIL

The red sector in Figure 2 comprises the **Formulate** activities. Together these well-known activities make up the strategy formulation process which generally begins with an analysis of the external and internal environments. Next, strategy alternatives are proposed after which they are analyzed, and the best one is selected and finalized.

If the analysis and the comparison of alternatives is unsatisfactory, the organization may decide to loop back to the external and/or internal environment analysis activities.

The orange sector in Figure 2 comprises the **Implement** activities. Together these activities make up the strategy implementation process which goes as follows. The process begins with the design of the target enterprise architecture that is a blueprint of how the organization will need to function to execute the previously formulated strategy. In parallel to designing the target enterprise architecture, the current enterprise architecture must be documented as comparing the two will enable the identification of the gaps that the organization will need to fill to implement the target enterprise architecture. Results of the gap analysis, combined with other key analyses (e.g., transformation readiness and risk analyses), will then support the elaboration of the transformation plan that regroups all the building blocks transformations to be carried out (i.e., gap to fill) into projects. It orders the timing sequence of their execution so that the benefits the transformation projects will collectively generate are maximized. Next, the transformation projects are executed. It is the execution of these projects that leads to the implementation of the new target strategy operating model, and thus, enables the execution of the new strategy. Two aspects are important to mention here. First, to cope with the complexity of organizations, the six implementation activities are generally conducted in parallel, and that the execution of projects may lead to

changes to the transformation plan, and that both the execution of projects and the elaboration of the transformation plan may lead to changes to the target enterprise architecture (Hadaya and Gagnon, 2017). Second, once the new target strategy operating model is implemented, the new strategy becomes the current strategy and the new target strategy operating model becomes the current strategy operating model of the organization. A prospective misalignment between the current strategy and current strategy operating model will trigger a new strategy cycle.

The gray sector in Figure 2 comprises the **Execute** activities. The first activity involves executing all the primary (e.g., inbound logistics, outbound logistics, marketing and sales, and service) and support activities (e.g., procurement, technology development, human resource management, and firm infrastructure) in alignment with the strategy to deliver value to the organization’s stakeholders. The second activity entails measuring the performance of the primary and support activities.

The blue sector in Figure 2 comprises the **Engage** activities. The first activity entails building and implementing an engagement operating model that details how the organization will function to engage stakeholders in the formulation, implementation, and execution of the strategy. Once the engagement operating model is in place, the two-step strategy engagement process can be executed. This process entails respectively developing and executing the communication as well as the stakeholder management and engagement plans. It is important to mention here that the two strategy engagement process activities can provide feedback to the first activity to improve the engagement operating model. This loop is marked with a “=” sign because the occurrence of the influence between the variables is less frequent (i.e., it indicates a time delay mark).

Finally, the green portion in Figure 2 comprises the **Governance** activities. The first activity entails building and implementing a governance operating model that details how the organization will function to govern the formulation, implementation, execution, and engagement of the strategy. Once the governance operating model is implemented, the other four strategy governance activities – namely, govern

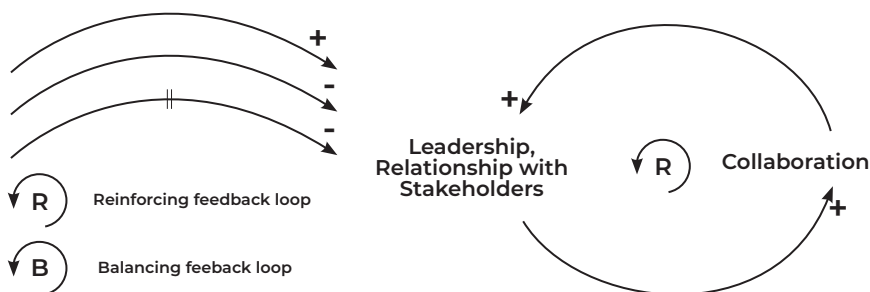


FIGURE 1: SYSTEMS THINKING SYNTAX AND A CASUAL LOOP DIAGRAM WITH REINFORCING FEEDBACK

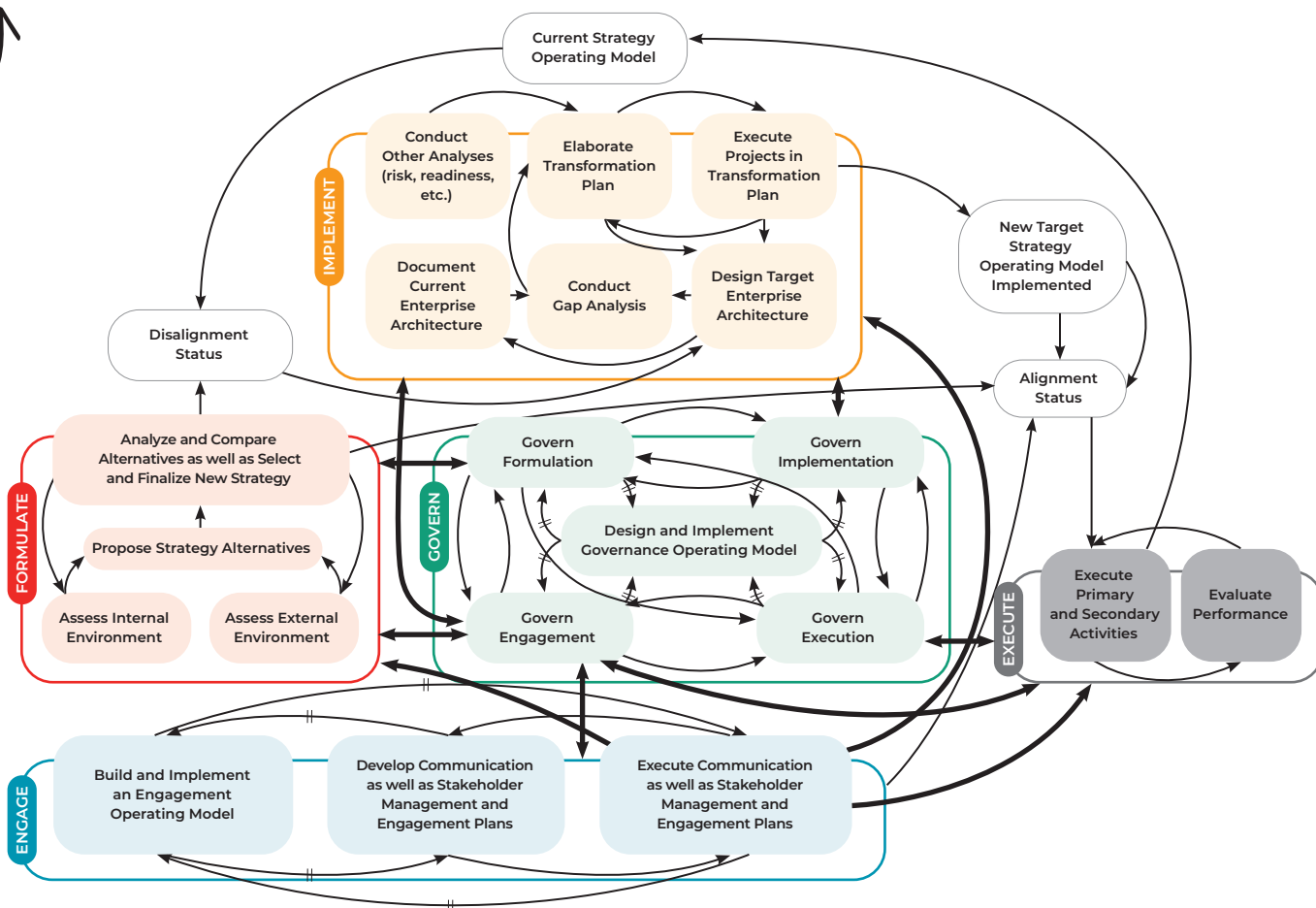


FIGURE 2: A SYSTEMIC REPRESENTATION OF A SOUND STRATEGY SYSTEM USING THE SYSTEMS THINKING'S CAUSAL LOOP TECHNIQUE

formulation, govern implementation, govern execution, and govern engagement – can be executed. To ensure an effective, agile, and efficient governance, these four governance activities must be integrated into one another. In addition, these four strategy governance activities can provide feedback to the first activity to improve the governance operating model and that these relationships have a time delay mark.

THE RELATIONSHIPS BETWEEN THE ACTIVITIES FROM THE DIFFERENT ACTIVITY GROUPS



We are now ready to describe the relationships between the activities of different groups. This entails three steps. First, we describe the relationships that bind the Formulate, Implement, and Execute group of activities into a continuous cycle throughout the lifespan of the organization. Second, we

explain how the Engage activities are related to the Formulate, Implement, and Execute group of activities. Finally, we describe how the Govern activities are related to the other four groups of activities. Because of the numerous feedback loops required to interrelate the different strategy activity groups, the presentation of these interrelationships was simplified by using bolded bidirectional arrows instead of the conventional two unidirectional arrows.

To relate the Formulate, Implement, and Execute group of activities, we can refer to the strategy-strategy operating model alignment cycle (Hadaya and Gagnon, 2020). For an organization to succeed, its operating model must be aligned to its strategy operating model. Hence, once an organization has devised a new strategy (last activity in Formulate), this new strategy is

inevitably misaligned to the current strategy operating model (see Figure 2). This misalignment, in turn, triggers the first Implement strategy activity: Design target enterprise architecture. Once the last activity of the Implement strategy group of activities – namely Execute projects in the transformation plan – is executed, the new target strategy operating model is implemented. This new target strategy operating model is aligned to the new strategy and thus becomes the current strategy operating model. This alignment, in turn, triggers the first activity of the Execute strategy group of activities: Execute primary and secondary activities.


Engagement is key for the successful execution of the Formulate, Implement, and Execute strategy activities. Hence, the Execute the communication as well as the stakeholder management and engagement plans influence each



of these three groups of activities. In addition, the Formulate, Implement, and Execute strategy activities must also be related to the Govern Engagement activity and vice versa to properly direct and control the specific engage activities for the formulation, implementation, and execution of the strategy.

An agile strategy governance entails that the Formulate, Implement, Execute, and Engage activities each have their own governance activities. That is why the Govern Formulation activity must be related to the Formulate activities (in the red sector) and vice versa. The same logic applies to the Implement, Execute, and Engage activities. As such, the Formulate, Implement, Execute, and Engage activities are interrelated through their respective Govern activities. For example, if during strategy implementation, enterprise architects realize that a change to the strategy may be required, the Govern Implement activity will gather the required information and send it the strategist involved in the strategy formulation activities via the Govern formulation activity.

CONCLUSION



Using the causal loop modeling technique from systems thinking, this paper describes at a high level, yet in detail, what a sound strategy system is using a feedback loop structure. This illustration of the key components of a sound strategy management system and the relationships that exist between them clearly shows the complexity of such a strategy systems and hints

to the difficulty required to put it into practice. Devising and implementing such a system requires a lot of ingenuity, insight, time, and effort. It is not for the faint in heart. But why should it be? For gaining and maintaining a competitive advantage for long-term success is the holy grail of strategy, and hence, it must be earned.

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