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STRATEGY PRACTICE

Becoming more strategic: Three tips for any executive

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You don't need a formal strategy role to help shape your organization's strategic direction. Start by moving beyond frameworks and communicating in a more engaging way.

We are entering the age of the strategist. As our colleagues Chris Bradley, Lowell Bryan, and Sven Smit have explained in "Managing the strategy journey" (on mckinseyquarterly.com), a powerful means of coping with today's more volatile environment is increasing the time a company's top team spends on strategy. Involving more senior leaders in strategic dialogue makes it easier to stay ahead of emerging opportunities, respond quickly to unexpected threats, and make timely decisions.

This is a significant change. At a good number of companies, corporate strategy has long represented the bland aggregation of strategies that individual business unit heads put forward.[1] At others, it's been the domain of a small coterie, perhaps led by a chief strategist who is protective of his or her domain—or the exclusive territory of a CEO.

Rare is the company, though, where all members of the top team have well-developed strategic muscles. Some executives reach the C-suite because of functional expertise, while others, including

[1] In a McKinsey Global Survey of more than 2,000 global executives, only one-third agreed that their corporate strategy approach represented "a distinct exercise that specifically addresses corporate-level strategy, portfolio composition issues." For details, see "Creating more value with corporate strategy: McKinsey Global Survey results," mckinseyquarterly.com, January 2011.

business unit heads and even some CEOs, are much stronger on execution than on strategic thinking. In some companies, that very issue has given rise to the position of chief strategy officer—yet even a number of executives playing this role disclosed to us, in a series of interviews we conducted over the past year, that they didn't feel adequately prepared for it.

This article draws on those interviews, as well as our own and our colleagues' experience working with numerous executives developing strategies, adapting planning approaches, and running strategy capability-building programs. We offer three tips that any executive can act on to become more strategic. They may sound deceptively simple, but our interviews and experience suggest that they represent foundational skills for any strategist and that putting them into practice requires real work. We've also tried, through examples, to present practical ways of acting on each suggestion and to show how doing so often means augmenting experience-based instincts with fresh perspectives.

1 Understand what strategy really means in your industry

By the time executives have reached the upper echelons of a company, almost all of them have been exposed to a set of core strategy frameworks, whether in an MBA or executive education program, corporate training sessions, or on the job. Part of the power of these frameworks is that they can be applied to any industry.

But that's also part of the problem. General ideas can be misleading, and as strategy becomes the domain of a broader group of executives, more will also need to learn to think strategically *in their particular industry context*. It is not enough to do so at the time of a major strategy review. Because strategy is a journey, executives need to study, understand, and internalize the economics, psychology, and laws of their industries, so that context can guide them continually.

For example, being able to think strategically in the high-tech industry involves a nuanced understanding of strategy topics such as network effects, platforms, and standards. In the utilities sector, it involves mastery of the economic implications of (and room for strategic maneuvers afforded by) the regulatory regime. In mining, leaders must understand the strategic implications of cost curves, game theory, and real-options valuation; further, they must know and be sensitive to the stakeholders in their regulatory and societal environment, many of whom can directly influence their opportunities to create value.

There is a rich and specialized literature on strategy in particular industries that many executives will find helpful.[2] Tailored executive education courses can also be beneficial. We know organizations that have taken management teams off-site to focus not on setting strategy but on deepening their understanding of how to be a strategist in their industries. For example, one raw-materials player headquartered in Europe took its full leadership team to Asia for a week, in hopes of shaking up the team's thinking. Executives explored in depth 20 trends that would shape the industry over the next decade, discussing both the trends themselves and their implications for the supply of and demand for the organization's products.[3] They also looked across their industry's full value chain to understand who was making money and why—and how the trends would change that. A number of the executives in the discussion were surprised by how much value certain specialized intermediaries were capturing and others by how the organization was losing out to competitors that were financing retailers to hold their inventory. The executive team emerged with a clearer appreciation of where the opportunities were in its industry and with ideas to capture them.

Building this kind of industry understanding should be an ongoing process not just because we live in an era of more dynamic management[4] but also because of the psychology of the individual. Experience-based instincts about "the way things work" heavily influence all of us, making it hard, without systematic effort, to take advantage of emerging strategic insights or the real lessons of an industry's history. War games or other experiential exercises are one

[2]See, for example, Carl Shapiro and Hal R. Varian, *Information Rules: A Strategic Guide to the Network Economy* (Harvard Business Review Press, November 1998), which focuses on information businesses, such as software.

[3]For more on trend analysis, see Peter Bisson, Elizabeth Stephenson, and S. Patrick Viguerie, "Global forces: An introduction," mckinseyquarterly.com, June 2010; and Filipe Barbosa, Damian Hattingh, and Michael Kloss, "Applying global trends: A look at China's auto industry," mckinseyquarterly.com, July 2010.

[4]See Lowell Bryan, "Dynamic management: Better decisions in uncertain times," mckinseyquarterly.com, December 2010.

way executives can help themselves to look at their industry landscape from a new vantage point.[5]

2 Become expert at identifying potential disrupters

Expanding the group of executives engaged in strategic dialogue should boost the odds of identifying company- or industry-disrupting changes that are just over the horizon—the sorts of changes that make or break companies.

But those insights don't emerge magically. Consider, for example, technological disruption. For many executives, the rise up the corporate ladder requires a deep understanding of industry-specific technologies—those embedded in a company's products, for example, or in manufacturing techniques—but much less knowledge of cross-cutting technology trends, such as the impact of sensors and the burgeoning "Internet of Things."[6] Moreover, many senior executives are happy to delegate thinking about such technology issues to their company's chief information officer or chief technology officer. Yet it's exactly such cross-cutting trends that are most likely to upend value chains, transform industries, and dramatically shift profit pools and competitive advantage.

So what to do? Some executives choose to spend a week or two visiting a technology hub, such as Silicon Valley, to meet companies, investors, and academics. Others ask a more technophile member of the team to keep abreast of the issues and brief them periodically. We know a number of executives who have developed "reverse mentoring" relationships with younger and more junior colleagues (or even their children) that focus on technology and innovation. And of course, there's no substitute for seeing what your customers are doing with technology: during several store visits, an executive at a baby care retailer saw mothers compare the prices of products on their smartphones at the store and leave if they could get a better deal elsewhere. The store visits brought home how modern mothers

[5]See John Horn, "Playing war games to win," mckinseyquarterly.com, March 2011.

[6]See Michael Chui, Markus Löffler, and Roger Roberts, "The Internet of Things," mckinseyquarterly.com, March 2010.

research their buying decisions, the interaction between mobile technology and store visits, and the importance of advertising a price-matching scheme to keep tech-savvy customers buying in stores.

Nascent competitors are another easy-to-overlook source of disruption. Senior strategic thinkers are of course well aware of the need to keep an eye on the competition, and many companies have roles or teams focused on competitor intelligence. However, in our experience, often too many resources—including mental energy—are devoted to following the activities of long-standing competitors rather than less conventional ones that may pose an equivalent (or greater) strategic threat.

For example, suppose you are an executive at an oil company with assets in the UK Continental Shelf. It is natural for the competitors that you meet regularly at board meetings of Oil & Gas UK, the regional industry association, to be more top of mind than Asian players that have only just acquired their first positions in the region. And that's exactly why many long-standing industry leaders were surprised when Korea National Oil Corporation (KNOC), South Korea's national oil company, clinched a hostile takeover of Dana Petroleum in late 2010, in what was to be the largest oil and gas transaction in the United Kingdom in several years. The transaction was a harbinger of future investments by less traditional players in the North Sea oil and gas industry. Similar dynamics prevail in mining: developed-world majors (such as Anglo American, BHP Billiton, and Rio Tinto), which have long competed with one another globally, now must also take into account players from Brazil, China, India, and elsewhere.

Picking up weak competitive signals is more often than not a result of careful practice: a systematic updating of competitive insights as an ongoing part of existing strategic processes.[7] Executives with diverse backgrounds can boost the quality of dialogue by contributing to—and insisting on—issue-based competitive analyses. Who is well-positioned to play in emerging business areas? If new technologies are involved, what are they, and who else might master them? Who seems poorly positioned, and what does that mean for competitive balance in the industry or for acquisition opportunities? Focusing competitive reviews on questions like these often yields insights of significantly greater value than would be possible through the more

[7] See Hugh Courtney, John T. Horn, and Jayanti Kar, "Getting into your competitor's head," mckinseyquarterly.com, February 2009.

common practice of periodically examining competitors' financial and operating results. It also helps push the senior team away from linear, deterministic thinking and toward a more contingent, scenario-based mind-set that's better suited to today's fast-moving strategy environment.

3 Develop communications that can break through

A more adaptive strategy-development process places a premium on effective communications from all the executives participating. The strategy journey model described by our colleagues, for example, involves meeting for two to four hours every week or two to discuss strategy topics and requires each executive taking part to flag issues and lead the discussion about them.

In such an environment, time spent looking for better, more innovative ways to communicate strategy—to make strategic insights cut through the day-to-day morass of information that any executive receives—is rarely wasted. This requires discipline, as it is always tempting to invest in further analysis so that the executive has a deeper grasp of the issues rather than in communications design to ensure that *everybody* has a good grasp of them. It also may require building new skills; indeed, developing messages that can break through the clutter is becoming a required skill for the modern strategist.[8]

Experiential exercises are one way of boosting the effectiveness of strategic communications within a top team. A strategist we know at a shoe manufacturer wanted to illustrate the point that many of his company's products were both unattractive and expensive. He started with a two-by-two matrix. So far, so predictable. But his matrix was built using masking tape on the floor of the executive suite, and the shoes were real ones from the company and its competitors. His colleagues had to classify the shoes right there and then—and he made his point. Similarly, we know another strategist

[8]Stanford University business school professor Chip Heath and his coauthor and brother, Dan Heath, describe such messages as "sticky ideas" that people understand and remember "and that change something about the way they think or act." Sticky ideas have at least some of these six characteristics: simplicity, unexpectedness, concreteness, credibility, emotion, and the ability to tell a story. For more, see Lenny T. Mendonca and Matt Miller, "Crafting a message that sticks: An interview with Chip Heath," mckinseyquarterly.com, November 2007; and Chip Heath and Dan Heath, *Made to Stick: Why Some Ideas Survive and Others Die*, New York, NY: Random House, January 2007.

who spent an afternoon cutting the labels off samples of men's boxer shorts. She wanted the board members to put them in order of price so they could see how their perceptions of quality were driven by brands and not manufacturing standards.

We would add that as strategy becomes more of a real-time journey, it's important to figure out ways to support discussions with data that's engaging and easy to manipulate. To the extent possible, executives need to be able to push on data and its implications "in the moment," instead of raising questions and then waiting two weeks for a team of analysts to come back with answers. Ideally, in fact, anyone in a room could drill into thoughtfully visualized data with the flick of a finger on a tablet computer. The proliferation of tactile mobile devices and new software tools that help make spreadsheets more visual and interactive should facilitate more dynamic, data-driven dialogue.

Executives hoping to become more strategic should look for opportunities to innovate in their communication of data, while prodding their organizations to institutionalize such capabilities. Breakthroughs abound—look no further than the interactive visualizations in the *New York Times* in the United States or the *Guardian* in the United Kingdom; the 2006 TED.com video "Hans Rosling shows the best stats you've ever seen"; Generation Grownup's interactive tool Name Voyager, which examines the popularity of baby names over time (see babynamewizard.com/voyager); or Kiva.org's Intercontinental Ballistic Microfinance visualization of loan-funding and repayment flows. But few companies have kept up.

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It's not enough to increase the number and diversity of executives engaged in setting strategy. Many of those leaders also must enhance their own strategic capabilities. We hope these three tips help them get started.

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