Jomer & Co

Improved strategic decision-making

The three essential leadership questions we usually phrase when meeting senior executives are:

- What is the environment in which your organization must compete and win?
- What are those few things your organization must do outstandingly well to win and keep on winning in this environment?
- How will you mobilize your organization to implement these things faster and better than your competitors?

This white paper explores the first two of these essential questions and elaborates on how to gain from improved strategic decision-making. Ultimately, the company with the best insights is the most likely to be able to thoroughly consider the strategic options and make bold winning decisions. Business leaders know that decision-making is a critical part of their job, but decisions are sometimes difficult to make. They could be either big one-offs, which have significant impact, or small routine ones that cumulatively are important for improving revenue, productivity and efficiency. A choice implies a decision between two or more options. Choosing is many times less about selecting than renouncing. Choosing one alternative automatically means consciously and willingly abandoning the others, and live with the consequences. Being a good decision-maker is a fundamental skill for any successful leader.

Strategic decisions

Strategic decisions are informed, target the long-term performance and relate directly to the purpose and objectives of the company. They are usually made at the highest levels and carry a higher degree of risk and reward. Decisions on strategic levels are often hard to make, since they frame the company's long-term performance and thus involve future circumstances and needs. When a company faces opportunities with long-term impact, such as entering a new market, acquiring a competitor, or launching a new product line, a strategic decision is required by senior management. They need to consider the anticipated effect from the decision, both from a short-term perspective and a long-term perspective, as well as the outcome of uncertainties and risks that will impact performance.

The most challenging strategic decisions depend on the decision maker's own ability to shape the outcome and where the outcome is relative to competition. Game-changing decisions, such as e.g. launching a new product line or entering a new market[1], are daring, since leadership teams must actively influence the outcome and outperform competition. Hence, only those who are able to gather a high degree of commitment and determination in the organization will be in a position to win. It is illusory to expect that such strategic decisions will be perfect and encompass all the desired outcomes an organization is hoping for. The reason for this is that strategic choices often require

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[1] Inspired by the thinking of Phil Rosenzweig.

consideration of multiple conflicting interests and committing large numbers of resources, which may be irreversible.

One type of situation is where neither you nor your competitors can change the name of the game, since all possible moves are pre-determined. Gains and costs are basically fixed, and success is not a matter of absolute performance but rather depends on how well your company performs relative to others. Making a competitive strategic bet in such an environment requires a constant eye on the competitors to follow and anticipate their likely moves, often knowing that they are doing exactly the same as you are in trying to secure the best chance of winning. This type of dilemma is a situation in which multiple companies compete for the same finite market, capital or resources. The outcome of the available options often depends on simultaneous choices made by others and, when all parties are in waiting mode, results in inefficiencies. In such situations, it is often tempting to strive for cooperation to maximize the outcome for all involved. However, many forms of market cooperation would fall under antitrust legislation and be prohibited. So, the way forward is rather to act with imagination and speed when it comes to decision-making and execution. In industries, which are regulated or have finite resources, cooperation to develop the industry as a whole may be the best long-term option.

All companies have stakeholders, such as customers, employees, shareholders, and suppliers, and they all want to achieve their goals. Hence, when choosing between strategic options, it is not unusual to encounter trade-offs when it comes to the interests of the company and its stakeholders. Conflicting targets, such as customer value or profit maximization, listen to all customers or only key customers, exploration or exploitation, and long-term performance or short-term results, are elements found in many strategic decisions[2]. A proactive way to deal with these conflicts is to consult the key stakeholders during the decision-making process exploring the strategic space in order to find out where you can stretch and where you are stuck. Dealing with trade-offs is not about choosing which axis is the better, but rather being able to understand how to make both workable. It forces decision makers to move from an “either this or that” paradigm into a “both this and that” paradigm, which often is required in today´s business world of complexity and need for adaptation. Leading an organization through strategic trade-offs is about making choices by taking the key stakeholders into consideration when identifying the various axis of reflection and then choosing a course that navigates successfully amongst them. If successful, you will see your stakeholders join your bandwagon.

Good strategic decision-making is essential for creating a winning strategy. A successful strategic decision begins with superior insights. The quality of generated insights will have a direct impact on the quality of the strategic decisions. Going through a bridging process, starting with the insights and analyzing the issues they raise, enables the strategic alternatives to emerge and assist in making the right choice. There are three main elements involved in defining strategic choices:

- Customer focus
- Winning proposition
- Key priorities

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[2] Inspired by the thinking of Frank Buytendijk.

Customer focus defines which customers will be served and which will not be served, and it identifies what is most important for those customers. The better job one does in identifying and meeting the customers' hierarchy of needs, the stronger and more profitable the bonds to them will be. Finally, customer focus also defines what products and services will be offered to them.

The winning proposition is the hard currency of a company´s strategy. It defines what the company will do differently or better than its competitors to generate greater value for its customers and superior profits for itself, as well as benefits for society and its stakeholders. Remember, the challenge is to define the winning proposition, not just a value proposition. The latter is often nothing more than me-too thinking. The winning proposition may be based on a theory of success, but it must always be based on the company's strengths and capabilities, i.e. what it does outstandingly well. The key priorities ensure that bold priorities, not more than five, are made. They should define the most important things a company will do to achieve its winning proposition, i.e. those vital few things that will make the biggest difference.

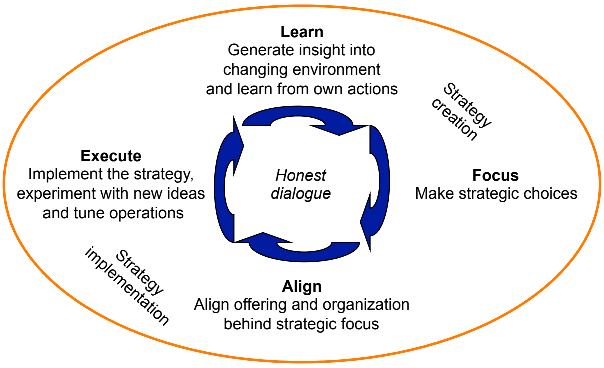

Figure 1. The Strategic Learning strategy process

Making winning strategic decisions is the output from the two first steps in the Strategic Learning strategy process, a four-step dynamic cycle of learn, focus, align, and execute. See fig. 1. Strategic Learning is a systems approach to strategy and execution that embraces, develops and disseminates knowledge and is able to adapt to changes in the world so that it benefits customers, employees, shareholders and society[3].

Strategic view at the top

When we ask members of leadership teams what percentage of time they spend on strategic issues versus operational issues in the leadership team meetings, the answers normally range between 70% and 90% favoring strategic issues while the rest is spent on operations. However, when we observe them during a series of leadership team meetings, we often see two things. Firstly, the majority of time is spent on operational issues, and secondly, the purpose and role of the leadership team are neither defined nor communicated.

The existence of a leadership team is in our view the sole decision of the CEO. In the extreme, a CEO may choose not to have a leadership team at all, but of course, the absolute majority chooses to have one. Before selecting members and establishing the leadership team, we believe the CEO needs to thoroughly think through the purpose and thus the role of the team. The role depends basically on the level of anticipated cooperation between the members and the level of strategic discussions. At one extreme, when there is little collaboration between the members and the focus is primarily on positions and solving operational issues, the leadership team will be just an

[3] Inspired by the thinking of Willie Pietersen.

information forum. At the other extreme, when there is a well-developed collaboration and a high level of strategic thinking, the leadership team will operate as an integrated team with a strategic view. In between, with increasing cooperation and level of strategic thinking, the team will go from being a collaboration forum, a CEO's support group to a joint decision group.

From experience, we firmly believe that the top team should aspire to become an integrated team with a strategic view, setting the strategic direction, allocating resources and solving conflicts with the entire system in focus. The reason for this is quite simple, if the CEO and the leadership team do not focus on the strategic issues, who will? In such a mature team, overseeing the company's direction is the job for all members. It requires stepping back from daily operations and positions, considering all major factors, which may impact the business and ensure a well thought through strategic direction.

Many CEOs need to move their leadership teams from an operational focus to a more strategic focus, develop the mindset of the members, and enhance the forms of collaboration. When a leadership team makes a strategic decision and individual members are more interested of the consequences for their own units than for the whole organization, there is a significant risk of sub-optimization. A silo mindset hurts performance and chance of success decreases.

Working with different CEOs, we have seen that they tend to play important roles both when it comes to the most successful decisions as well as the least successful ones. Notably, this suggests that thorough examination and devil's advocacy are of great value. Making successful professional strategic decisions is hard work and must be approached by all members of the leadership team with the same level of discipline and direction, as they would bring to their own units. Today, many organizations are complex, and even the most informed ones do not have enough technical depth to fully understand all multifaceted issues. Common sense recognizes that involving others with relevant knowledge, experience, and expertise improve the quality of the decision. A CEO or any other single executive should not make any strategic decisions before the decisions have been honestly scrutinized for facts. To enable continuous learning, decisions that did not work out as expected should be reflected upon. Learning from the past is beneficial for improved future decision-making when used contextually.

Pitfalls in strategic decision-making

Making decisions is much about addressing today's issues, while having options for future change. The path to successful strategic decision-making is narrow, and it is far from straight. Keeping pitfalls in mind would make any leadership team more effective. *What are the options and how much can we influence the outcome? Are there one-time decisions to be made, without any possibilities to change if new game-changing facts surface, or do we have control over how things will be played out? Are we competing vigorously with others?*

It takes courage to look at the present information, consider the consequences, and then move forward to make a decision. Often when faced with a complex decision, it is more comforting to keep searching for information to verify the decision rather than making the actual decision. Indecision is often worse than making the wrong decision. In principle you cannot improve decision-making by relaxing and trusting your gut. We sometimes meet executives, who discount the role of luck and exaggerate the degree of control they have over events. Like other people, they usually exaggerate their personal abilities, particularly for ambiguous, hard-to-measure traits like making strategic choices.

Risk is an inescapable part of every decision and both upside and downside implications could be enormous. While intuition is valuable in routine situations, informed decisions require hard work. The mental trap is to believe that you have to accept the game you find yourself in. Realizing that you could change the game could yield positive results, since it is far more rewarding to be a game changer than a game taker. But it also requires more work, analysis and reflection. Another trap is to believe that changing games must come with a cost for others, consequently missing win-win opportunities. In addition, executives need to be aware of the biases that will distort, mislead and cause failure in the decision-making process. In our work, we have seen that successful strategic decisions are associated with less biases, robust debates, and objective assessment of facts.

A leadership team must also assess the organization's execution capabilities before making a decision. Groupthink is likely to happen in any team, especially if it is homogenous with little diversity in background, gender and age. Groupthink hinders dissenting opinions, and limits a dynamic exploration and evaluation of alternative choices. When critical opinions are suppressed and optimistic ones are rewarded, a team's ability to think creatively is undermined. When there are strong emotional elements and evaluating something you favor, you tend to minimize the associated risks and exaggerate the benefits. On the other hand, you tend to do the opposite when evaluating something you dislike. Thus, a leader need to secure that decision criteria are transparent and ensure that all team members are included in the discussion on the basis of their skills and experiences.

A bad decision sometimes stems from failure to connect a strategic choice to the overall strategy. In the absence of a clear strategy that provides context, many solutions appear to make sense. However, our experience tells us that many companies falter with their strategic decision-making process simply because they lose sight of their strategic value dimension. When reacting to market trends and competitive pressures, they pursue initiatives that have merits on their own but are inconsistent with the company's value dimension. These companies may appear to be responding to change. In reality, however, they risk blurring their strategic direction and by that diverting energy and resources away from core business. The essence of business success lies in making sure you are playing the right game. The choice of strategic value dimension defines which game your company plays. There are three value dimensions to choose from, i.e. cost leadership, product leadership and customer intimacy.

By cost leadership, we mean providing customers with reliable products or services at low prices and delivered with minimal difficulty or inconvenience. Product leadership means offering customers leading edge products and services that consistently enhance the customer's use or application of the product, thereby making rivals' products obsolete. Customer intimacy means segmenting and targeting customers precisely and then tailoring offerings to match exactly the demands of those customers. Companies that excel in customer intimacy combine detailed customer knowledge with operational flexibility so they can respond quickly to almost any need, from customizing an offering to fulfilling special requests.

Companies that push the boundaries and excel in one strategic value dimension while meeting industry standards in the other two gain such a lead that competitors find it hard to catch up. This is primarily because the company has aligned its entire operating model, i.e. the company's structure, processes, capabilities, governance, culture and reward systems, to uniquely serve one value dimension. When a company chooses to focus on a value dimension, it is at the same time selecting the category of customers that it will serve. In fact, the choice of strategic value dimension and customer category is actually a single choice, and defines the game, the business and the company.

Does the leadership team assume that you will continue to be successful when you for instance choose to enter a new business area or market, solely based on your track record? We have many times seen that the tendency toward optimism unavoidably blur business executives' clear thinking. Optimism is obviously important, but it needs to be balanced. When a decision goes wrong, it is quite often due to obsolete, and thus irrelevant, processes and facts. Hence, putting too much emphasis on history and that results simply are extrapolations could lead to uninformed decisions. Instead, look for any unexpected events, which may put a spin on your strategic decisions, consider your past experiences and evaluate if you can transform them into the new context. Finally, strategic decisions may go sour if the organization does not understand them, so communicating and securing that people understand are critical elements for successful implementation.

Leadership evolution

Many of the leadership teams and executives we have supported in creating and implementing strategy have come to understand that the value a company delivers is, no more and no less than, the sum of all decisions it makes and executes. An organization's assets, capabilities, structure and processes are useless unless people throughout the organization make aligned decisions that are right most of the time. And at the end of the day, the consequential decisions executives make, whether acquisitions or new offerings, become successful only if their choices are better than the competition's.

Working closely with executives has put us in the fortunate position to influence and support them in raising their ambition and commitment for strategic decision-making. They have realized the need for careful and dispassionate analysis, a willingness to stretch the boundaries and sensing the actions of their competitors. They have improved their ability to make bold decisions by deep understanding of the nature of the decision at hand, thus tailoring the appropriate decision process and avoiding common decision errors. The results have been hard business benefits such as rapid execution and increased profits.

How can we help?
It is impossible to eliminate risks from strategic decision-making. Nevertheless, we argue that it is possible for companies to significantly improve their chances of success

when it comes to making strategic choices if they take an outside-in view. We guide our clients in taking such a view and thus improving their strategic thinking. We also support them in basing their decisions on facts to the benefit of providing a reality check and reducing the odds of pitfalls, which could lead to losses of opportunities, time and resources.

Jomer & Co has long experience and knowledge of supporting leadership teams and executives in strategy creation and implementation. Our support is always bespoke and there are several possible entry points to a successful collaboration, for example:
- Running an Insights Workshop with the leadership team is a proven process for identifying areas in need of deeper and additional insights before making strategic choices.
- Conducting a pre-decision review, to understand the set of decisions that is critical for success and determine where those decisions should be made and executed, is a proven way to increase decision power and value.
- Running a Strategic Focus Workshop with the leadership team is a proven process for identifying and structuring strategic choices.
- Engaging in Strategic Coaching of senior managers' strategic challenges supports and assists them individually in their ongoing strategy development and implementation work.
- Running a Strategy Execution Workshop with the leadership team is a proven process to identify strengths and weaknesses, when closing the strategy-to-execution gap, and to build a higher ambition leadership.
- Conducting a Strategy Audit, to focus on the organization's readiness for strategy execution, provides insights to the effectiveness of the company's current or planned strategy as well as guidelines for increasing strategic effectiveness.

Jomer & Co

We help clients close the strategy-to-execution gap by creating and implementing winning strategies.

Jomer & Co is a boutique advisory firm, focusing on strategy creation and implementation. Our focus on employing professionals with extensive experience provides us with the executive resources of a larger organization while still being flexible and responsive in the relation to our clients' challenges.

We are devoted to knowledge and situational insight and are aligned to the shift in demand for management consulting services by its way of leveraging knowledge, experience and giving advice. Our experienced Consulting Associates work closely with clients throughout the stages of strategy creation and implementation.

For contact and more information, please email info@jomer.se.