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CFO Insights: Turning strategic ambiguity into strategic clarity

In battle, strategic ambiguity can sometimes lead to disastrous results. At Gettysburg, for example, on the first day of the epic Civil War battle, General Robert E. Lee ordered General Richard Ewell to take Cemetery Hill "if practcable," when, some historians say, he really meant to find some way to take the hill. But Ewell famously hesitated, allowing the Union Army to fortify its position on the high ground of the battlefield. The rest, as they say, is history.

In business, strategic ambiguity can also have disastrous effects – and cause major stress for CFOs. In fact, according to Deloitte's China CFO Survey, over half of CFOs at large Chinese companies have named strategic ambiguity as one of their top three career stresses.[1]

Little wonder. In a CFO's view, strategic ambiguity is the uncertainty arising from the organization's inability to 1) **define** strategy in the face of economic volatility, 2) clearly **communicate** the strategy internally to employees and externally to investors and other stakeholders, 3) **align resources** to implement that strategy, and 4) **execute** effectively. Yet, there may be no one better positioned than the CFO to navigate their organizations through strategic ambiguity to strategic clarity. And in this issue of *CFO Insights*, we explore how CFOs can leverage data and the planning and performance management cycles to address multiple aspects of strategic risk and in the process create opportunities for themselves to serve as business strategists and catalysts.

The Strategy Execution Framework

One of the root causes of strategic ambiguity, not surprisingly, is the volatility in the business environment. Economic upheaval and change continue to drive companies to revisit and revise their core strategies. At the same time, however, CFOs tell us their own companies' ability, or inability, to formulate and execute their business strategies only adds to the problem.

These factors challenge CFOs' abilities for decisive direction-setting and decision-making and can stifle the broader organization's ability to effectively execute the strategy. Addressing the problem requires a four-step approach as outlined in the *Strategy Execution Framework* (Figure 1):

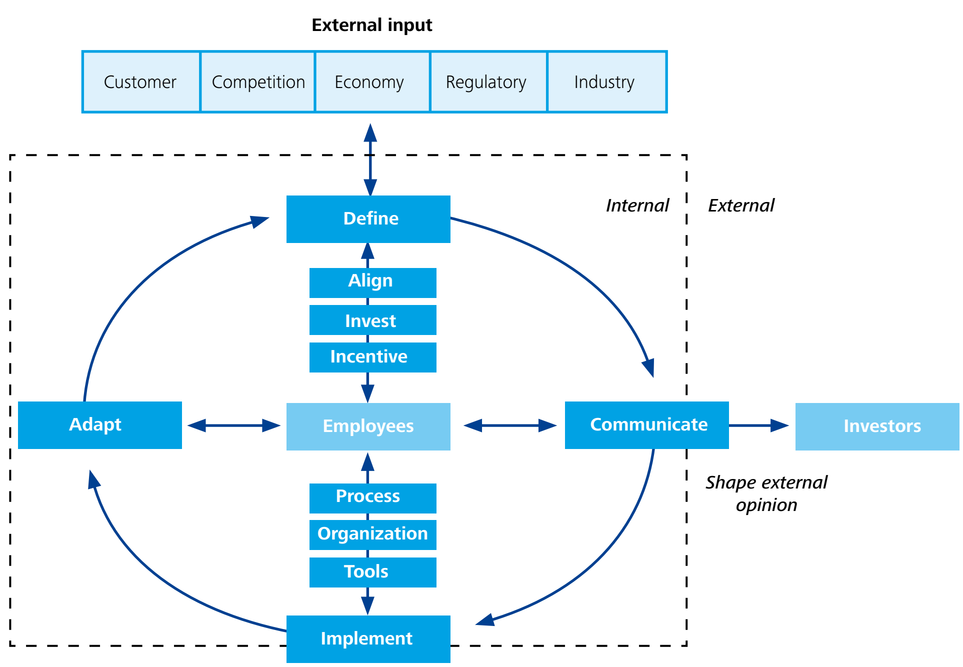
Define. Most companies do not have the luxury of investing in each opportunity and only a finite number of major initiatives can be managed effectively. That is why companies need ways to identify and prioritize the right opportunities. Clearly defining a focused set of strategic objectives (e.g., rate of return, growth targets, performance metrics goals, etc.) can provide a framework to evaluate and select these investment opportunities.

Communicate. Poor communication of strategic objectives often leads to a lack of buy-in and internal alignment resulting in less desirable resource allocation decisions. Clear communications and alignment on strategic objectives is also critical among external stakeholders to gain the confidence of investors. If investors don't understand or disagree with management's view on corporate objectives, they can express their disagreement in capital markets.

Implement. A great strategy is only as good as its execution. Effective implementation of strategic objectives requires a change in organizational practices, investments, and incentives. The inability, or delay, in changing these factors to align with the strategic objectives will most likely result in reduced success or even failure.

Adapt. Finally, corporate objectives and the strategies to achieve these objectives are rarely static. Effective companies balance the need for a clear and executable strategy with flexibility and a certain degree of organizational redundancy to respond to changes in the business environment. Internal factors may necessitate strategy refinement as well. Through the process of communicating or implementing a strategy, companies may learn things about internal capabilities that may require a re-thinking of focus.

Figure 1. Strategy Execution Framework



Source: Deloitte Consulting LLP

Spearheading strategic clarity

At each step of the Strategy Execution Framework, there can be opportunities for CFOs to take the lead in cutting through the fog of ambiguity to achieve strategic clarity. Moreover, guided by the following four questions, CFOs can move out of their steward and operator roles as outlined in the Four Faces of the CFO[2] into the strategic and catalyst roles they desire.

1. **What is the core vision of the organization?** Volatility in the economic environment can cloud the core vision of the organization as well as the validity of corporate objectives. Asking this question focuses the conversation on whether volatility in the environment is a near-term disturbance to endure or something that requires a rethinking of the way the organization does business. CFOs should help ground the discussion in facts and help the organization understand the range of possibilities. In addition, CFOs should use their position as a centralized, unbiased participant in the strategy development and execution process to determine that both sides of any decision are evaluated and that the assumptions and underlying projections are road tested.

2. **Do employees and investors understand and agree with the strategic direction?** Articulating the strategy is as critical as defining it, and CFOs are uniquely positioned to communicate that direction to both employees and external stakeholders. For example, CFOs and the senior leadership team should be actively involved in the front-end of the annual planning process, articulating the overall strategic objectives for the organization and setting clear top-down guidance. In addition, CFOs should leverage investor communication channels to continuously gauge and shape external viewpoints around the organization's strategic direction. Earnings calls or investor road shows can also be used to signal changes in strategic direction and management's view of the future.

3. **What is the preferred way to implement the strategic direction into concrete action?** The planning and performance management cycle is not only one of the most effective tools CFOs have to articulate strategic objectives, but also to align investments and incentives to meet those objectives by:

   - **Translating the vision and corporate goals into concrete plans of action with clear resource requirements and expected outcomes over a defined time frame.** To effectively do this, the investment decisions should be classified as either necessary to maintain business as usual or to change the business in support of strategic objectives. Using the traditional operating versus capital-funding distinction, investments may attract some scrutiny, but those using operating funds are often subject to limited review and accountability for performance.

   - **Incorporating plans into operating budgets, assigned to managers accountable for achieving results.** The impacts of accepted initiatives should be incorporated into the financial plan and reflect both the costs and benefits of those initiatives. CFOs should strive for planning and budgeting processes that avoid unnecessary detail and provide rich context behind targets pushed down to operating managers. This can determine that the process efficiently and effectively links strategic direction to a measurable financial plan and clearly identifies initiatives that drive strategic objectives.

   - **Using reporting and analytics to evaluate progress and to identify needed course corrections.** To truly drive clarity of strategic objectives, CFOs should leverage variance analysis and reporting processes to understand whether unexpected performance is a function of execution missteps or an indicator of changing external realities. Specifically, CFOs should expand the reporting process to include Key Performance Indicators (KPIs) aligned with enterprise and operating unit strategies and then hold the organization accountable to the metrics.

In addition, the advent of increasingly effective analytical processes and supporting tools offer the CFO a platform to deliver rich insights to the business operators. Many leading CFOs balance quantitative and qualitative analyses pertaining to product penetration and profitability, pricing strategy and tactics, and segment or geographic dynamics, to name a few. Consistently linking these analytics to strategy execution helps reinforce and communicate the strategy internally and externally.

- **Embracing scenario planning – again and again** The usage of scenario planning, particularly for black and gray swan events, has only increased over the last few years. CFOs should make sure the planning takes into account certain volatile factors such as the strength of the economy, consumer demand, technological innovation, and the regulatory environment to determine plausible scenarios and possible outliers. In addition, CFOs should push the planning beyond the traditional "high-medium-low" approach to include a wide enough range of possibilities that allow the team to prepare for particular scenarios and watch for signs that they are actually happening. Most important, the scenario planning process should include testing to see if the firm's strategy will hold up to each possibility.

4. **Does the strategy demand a different skill set across the organisation? Or is there a gap between the desired and available skills and capabilities?** Finally, the internal adaption of a strategy should be a continuous process. Organisational skills and capabilities should constantly be evaluated and changed to align with strategic intent. Finance can play a critical role in establishing performance expectations and monitoring execution and recommending course correction by providing reporting, analysis, and decision support pertaining to resource deployment and productivity.

Strategy's silver lining

These steps only offer a framework for combating strategic ambiguity, however, not reducing it. In fact, the organizational theorist Karl Weick anticipates that we will see "chronic ambiguity" in the future, which will only complicate the CFO's job.[3]

The CFO plays a critical role in bringing strategic clarity to multiple constituents as a result of his or her particular position as an unbiased participant in the strategy development, communication, and execution process. By leveraging the planning and performance management cycles as well as analytical capabilities, CFOs can minimise strategic ambiguity and establish strategic clarity for the organization and its stakeholders. To finance chiefs, spearheading that process is not often "if practicable," but increasingly necessary.

Endnotes

[1] China CFO Survey, June 2012. It is all about growth.

[2] Four Faces of the CFO, U.S. CFO Program, Deloitte LLP. See http://www.deloitte.com/view/en_US/us/Insights/browse-by-role/Chief-Financial-Officer-CFO/Four-Faces-of-the-CFO-Chief-Financial-Officer/index.htm.

[3] See John Geirland, "Complicate Yourself," [Interview with Karl Weick] Wired, April 1996: http://yoz.com/wired/2.04/features/tw_weick.html.

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HK-010ENG-13

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