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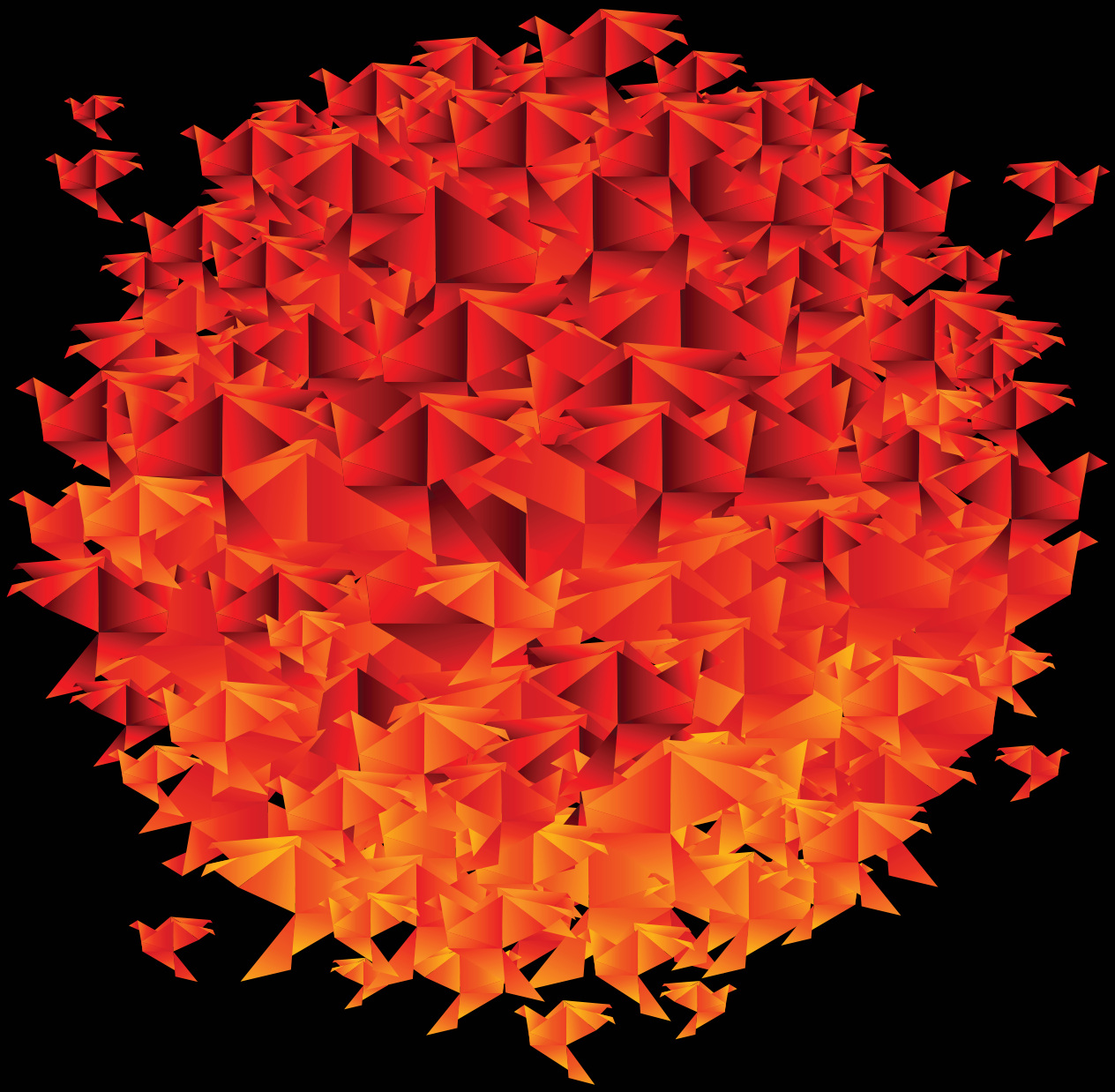


Why good strategies fail

Addressing the three critical strategic tensions

Introduction

Much has been written in management books, white papers, and news articles about how to craft a winning strategy. Scholars, strategy executives, management consultants, and business gurus alike, all have a formula for how to identify opportunities to advance an organization's aspiration, architect a plan of attack, orchestrate resource allocation, and coordinate execution of priority initiatives. Developing a well-crafted strategy takes time, effort, money, intellectual commitment, and political capital. If you have ever led or participated in a strategic planning process, you know the drill.

But what happens when your strategy doesn't work as intended? What happens when your strategy falls short of delivering the expected results?

The question of "why isn't my strategy working?" is asked more often than many executives would like to admit. Yet, there is very little in the strategy literature that can help companies troubleshoot their strategy execution, isolate the causes of friction, and deploy mitigating and corrective actions.

In this article, we aim to bridge that gap. We explore three critical strategic tensions—incoherence, incongruence, and inconsistency—their root causes, how to identify them, and how to make sure that they don't prevent your strategy from realizing its full potential.

Strategy as a set of contextualized, integrated, self-reinforcing choices

At Deloitte, we like to articulate strategy as *"an integrated set of self-reinforcing choices that positions the firm to create sustainable advantage relative to competition and to generate superior financial returns."*

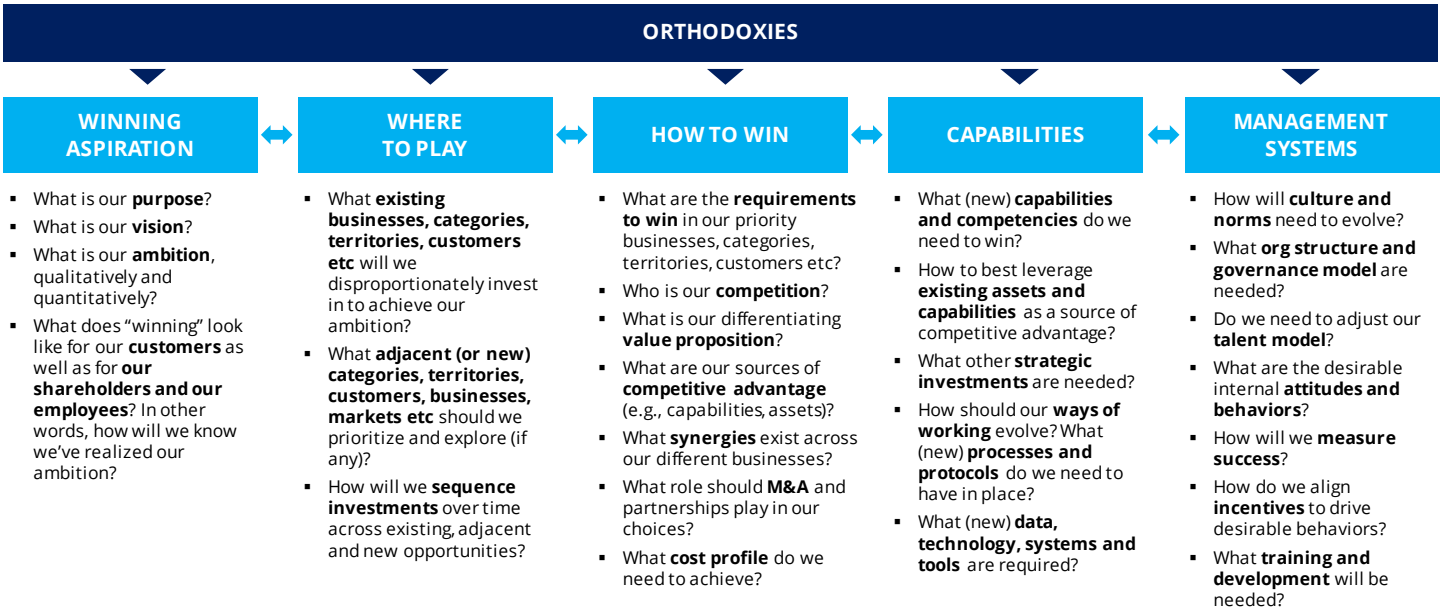
Those five integrated choices are:

- What is your winning aspiration?
- Where will you play?
- How will you win?
- What capabilities must you have?
- What management systems must be in place?

Those five choices, however, are not made in a vacuum. On the contrary, they must be considered in context of what those anointed with the responsibility of making those choices fundamentally believe in regarding the world around them, including the external environment (e.g., consumer behavior and attitudes, channel structure, competitive dynamics, technology disruption, regulatory and legislative landscape), and internal dynamics (e.g., core competences, strategic assets, sources of advantage, capability gaps, management preference, investment capacity, cultural bias). Collectively, we call those fundamental beliefs "orthodoxies." Whether grounded on facts or perception, orthodoxies inform, influence and shape strategic choices.

Understanding the five strategic choices— and the role that orthodoxies play in informing and shaping them— is crucial to appreciating the three critical strategic tensions that can render a strategy obsolete or ineffective.

This framework is presented in detail in the business strategy book "Playing to win: How strategy really works," co-authored by A.G. Lafley and Roger L. Martin.



Source: Modified from A.G. Lafley and Roger L. Martin; Playing to win: How strategy really works; 2013.

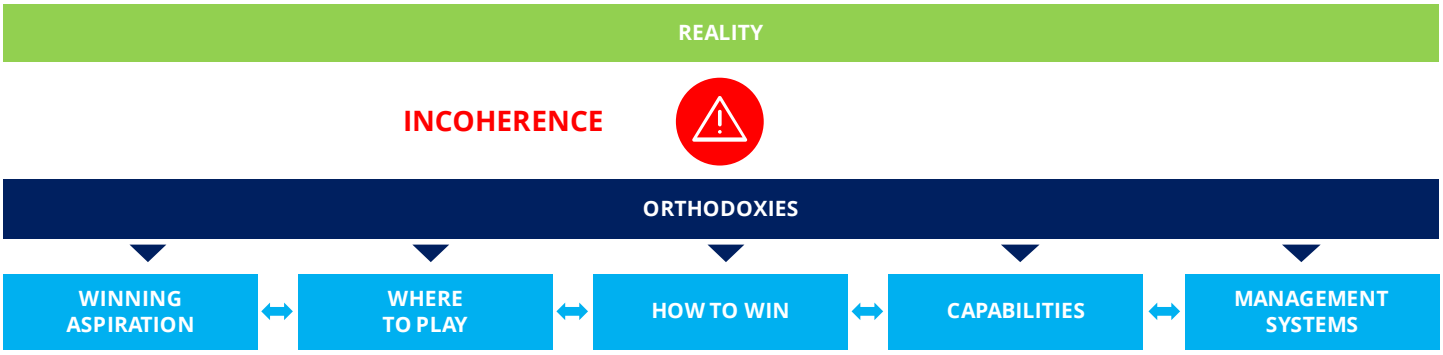
Why good strategies go awry

In our experience, when a strategy goes awry, the culprit can be found among three main sources of friction:

Incoherence | Incongruence | Inconsistence

Incoherence

The first critical strategic tension is incoherence.



Incoherence occurs when the underlying beliefs (orthodoxies) that have informed the strategy narrative are fundamentally misaligned with external and/or internal realities. Myopic orthodoxies will likely lead to tainted insights, wrong conclusions, and misguided choices, creating a strategy that is destined to fail from its inception.

Common sources of incoherence include:

- Insufficient information about key market characteristics and dynamics
- Partial exposure to the "full story," creating knowledge gaps across the business
- Internal bias that skew the interpretation of market signals
- "Group think" that constrains research and analysis only to seeking validation of currently-held beliefs (i.e., confirmation versus exploration)

To protect yourself from developing incoherent strategies, start by creating a common and sufficiently comprehensive understanding of the critical undercurrents affecting your business, both externally as well as internally.

However, how can you prevent the dreadful "boil the ocean" trap when seeking to create a more complete and accurate view of the world around you?

At Deloitte, we like to apply an inductive method, called "Reverse Engineering," that consists of leading with hypotheses about your strategic choices, and then asking the question: "What must be true for us to accept those choices as the best strategy for our company?" Reverse-engineering your choices based on what you must believe in to accept them can help ensure that all research and analysis is completed in a focused and purposeful way.

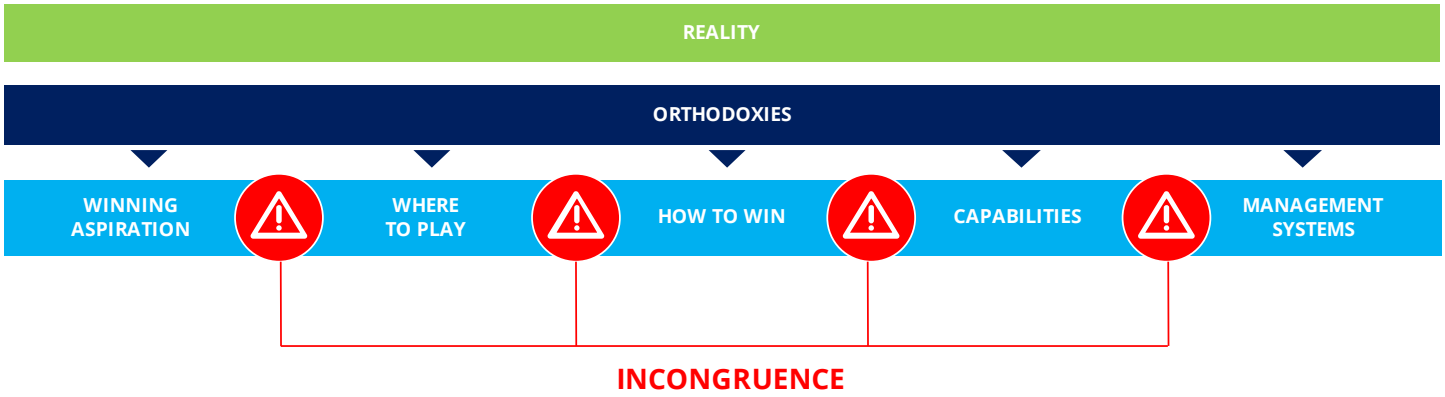
Before shifting to the second critical tension, let's touch briefly on a "special case" of incoherence: the pace of change and the shifts in the marketplace happen faster than the company's ability to detect and react to them. As disruption accelerates, more and more companies may be affected by this predicament, particularly the ones with rigid strategic planning cadences that don't match the speed of the market. The strategy tends to get outpaced by change, shortening its "shelf life."

That's one of the reasons why many leading organizations are moving towards a more dynamic strategic planning process. Adopting more agile sensing and sense-making mechanisms can enable an organization faced with fluid market conditions to evaluate their strategic choices with a greater degree of flexibility and urgency, without having to wait weeks for the next Quarterly Performance Review meeting (or months until the next annual strategic planning process kicks off).

Scenario planning is also a great tool to avoid being blind-sided or outpaced by market disruption and falling victim of the "special case" of incoherence described above. Scenario planning helps the organization consider and plan for distinct plausible futures, which are individually constructed to reflect how the world may shape up based on pivotal uncertainties. Building optionality into your strategy will make it more robust to survive market shifts.

Incongruence

The second critical strategic tension is incongruence.



Incongruence occurs in the linkages between the five strategic choices. In other words, incongruence occurs when the five strategic choices are not integrated and do not reinforce each other, e.g., when your 'where to play' choices don't support your 'winning ambition', or when your 'capabilities' don't enable your 'how to win'.

Even when strategic choices are coherent (i.e., grounded in the right orthodoxies), they may still be incongruent if frictions exist between those choices.

The most common source of incongruence is the fragmentation of the strategy development process. That fragmentation can manifest itself in two potentially harmful ways:

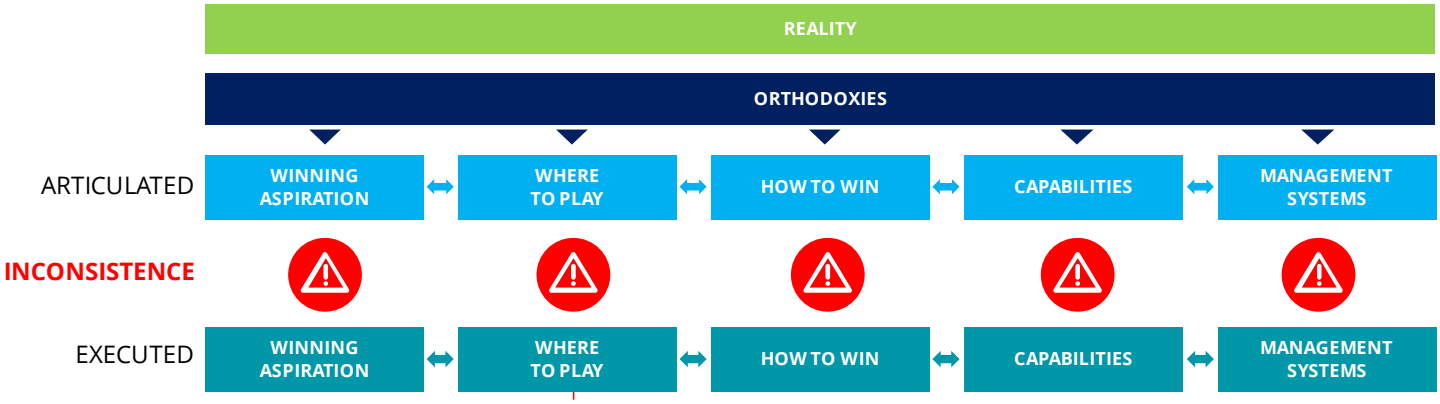
- Literal cascading: Organizing the strategy development process as a set of sequential workshops where each of the five strategic choices is considered discretely, one at a time; and/or
- Dividing and conquering: Assigning ownership of specific elements of the strategy to different stakeholders and allowing the thinking to evolve independently in organizational silos.

Four simple practices can help save you from ending up with an incongruent strategy.

1. **Ensure that strategic choices are considered together (not in isolation of each other).** Although there may be legitimate practical reasons why strategic choices may need to be addressed in some logical sequence, make sure to adopt lookback mechanisms to iterate on the full set of choices every time a new choice is made.
2. **Provide equal emphasis to all five strategic choices.** It is not uncommon, unfortunately, for executive teams to dedicate time and energy to top-of-the-cascade choices (i.e., "winning aspiration," "where to play," and how to win," while pushing the bottom-of-the-cascade choices (i.e., "capabilities," and "management systems") down the organizational hierarchy. That's a mistake. All five choices are equally important and deserve the same level of management attention and commitment. The bottom-of-the-cascade choices, in particular, are crucial to making the strategy real and tangible.
3. **Create cross-functional forums where choices can be discussed "live,"** as opposed to having a sterile process where individual teams work independently and submit their "answers" for final compilation. Strategy development is a "messy" process that can benefit tremendously from in-person dialog and debate.
4. **Finally, designate an individual (or a small group of individuals) to play the "strategy architect" role**, making sure that all the pieces of the strategy fit together in harmony, even if developed by different parts of the organization. In large organizations with a formal strategy function, this role typically belongs to the Chief Strategy Officer (CSO), whereas in smaller organizations without a formal Strategy function this role is often played by the Chief Executive Officer (CEO).

Inconsistence

The last of the three critical strategic tensions is inconsistence.



Strategy is what you do, not what you say you will do. Your colorful investor presentations and the glossy, heavy-stock pages of your annual report won't do anything to advance your position in the marketplace unless your strategy is brought to life and executed as intended. Inconsistence happens when what you do is at odds with what you say you will do.

There are four main drivers of inconsistency that can make your actions ("what you do") be different than your strategic intentions ("what you say you will do"):

- Insufficient specificity and actionability in the strategy, leaving much "guessing" for those tasked with execution
- Lack of organizational resources, bandwidth, and/or capability to execute the strategy as intended
- Poor understanding of the strategy itself, including its intent, priorities, and required actions
- Misalignment among key stakeholders, some of whom may fundamentally disagree with the strategic direction and may consciously chose to act upon their own personal beliefs and advance their own competing agenda

The most basic mitigating action to avoid inconsistent strategies is translating the high-level narrative into a set of tangible strategic initiatives that should be sequenced into a roadmap that takes into considerations constraints on time, resources and money. These initiatives should be used to mobilize resources and guide coordinated action. At minimum, each initiative should have clearly articulated objectives, owners, underlying activities, expected timelines, required resources, estimated investments, measures of success, and anticipated risks/challenges.

Addressing inconsistence also requires creating and deploying purposeful communication and change management plans that reflect the needs and expectations of different internal audiences. A structured, well thought out change management strategy is important to address insecurities, remove confusion, communicate timelines, and define expectations around how job responsibilities and success metrics would evolve for those impacted by the shift in strategy. Quite often, organizations overlook the importance of planning for, and deploying effective change management resulting in limited, or worse, improper implementation of strategy.

Finally, be explicit about securing buy-in from key stakeholders—spend the time to meet one-on-one, understand personal sources of concern, evaluate where trade-offs may be necessary, and recognize that not everyone will be 100% aligned. To help ensure the strategy is executed successfully, put mechanisms in place to drive desired behaviors and monitor the execution.

Many executive teams mistakenly assume that their strategic roles end once the strategy is defined. That's not true. Their roles are as important downstream, in securing resources, launching and governing over strategy execution, as they were upstream, during the strategy development stage.

Avoiding strategic tensions: Keep your strategy on track

Not seeing a strategy deliver its intended impact can be extremely frustrating for business leaders trying to drive superior performance. The good news, however, is that it is possible to diagnose and trouble-shoot the underlying issues.

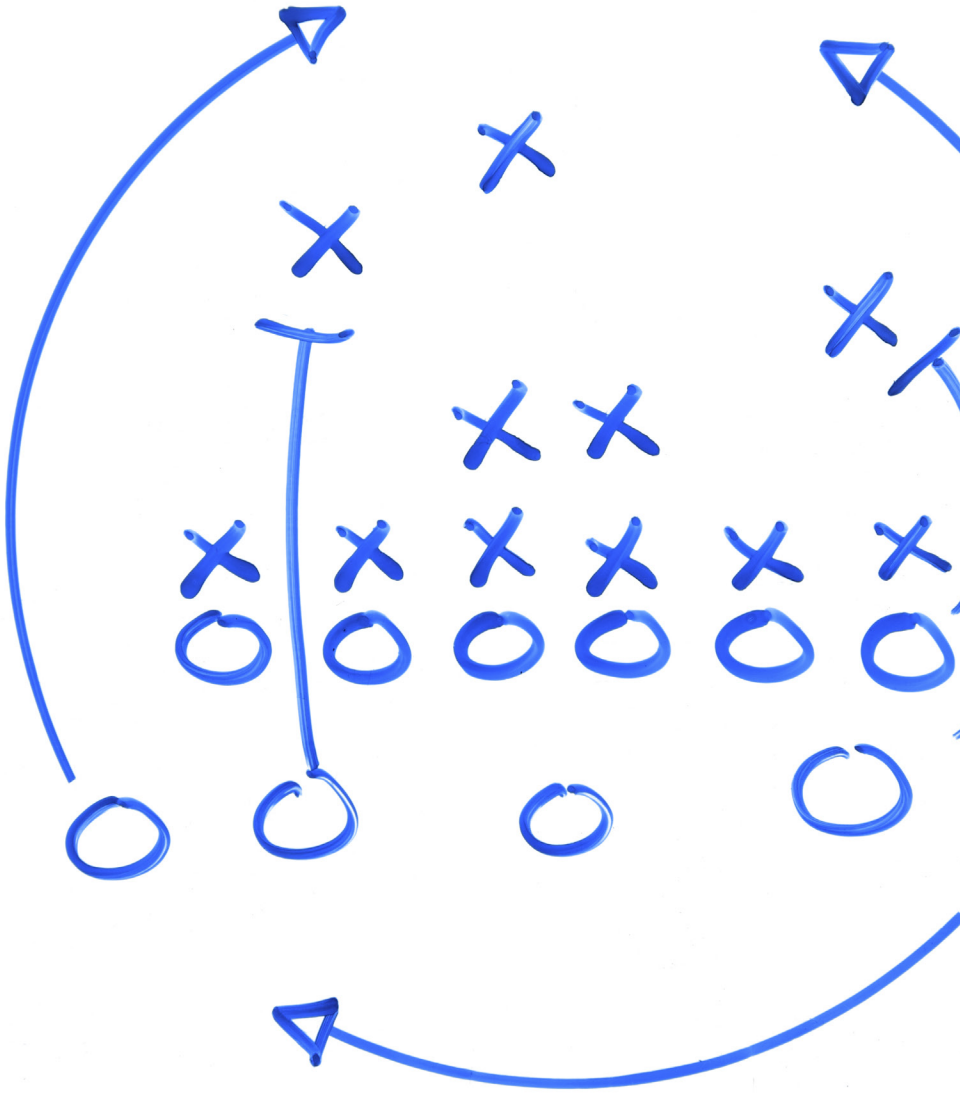
Make no mistake: there is no such thing as "seamless execution." Issues will happen. Understanding the three critical tensions—incoherence, incongruence, and inconsistence—is crucial to either avoid them, or to identify and resolve them.

Ultimately, if you find yourself "stuck," we are here to help. Deloitte's extensive experience helping clients develop and implement their strategies gives us a first-hand view on the good, the bad, and the ugly; how to identify potential problems, and, more importantly, how to take mitigating or corrective action. That can make the difference between a strategy that falls short and one that leads to success.

Want to learn more or to explore further?

Here are three easy ways to continue the dialogue...

- **Schedule a conversation.** Let's continue the dialogue with you and your team, either by phone or in-person.
- **Leverage our self-assessment tool.** Our diagnostic tool offers an easy and effective way to identify where the biggest sources of tension in your strategy may be.
- **Request a 'Playing to Win Lab.'** A day-long immersive experience designed to pressure-test your current strategy along three main sources of tension.



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