

McKinsey Global Survey results:

Putting strategies to the test

Creating a winning strategy is a struggle for most companies; some seem content just to play along. They may not be asking themselves the right questions.

Competitive advantage is the essential ingredient of any strategy. Yet for many companies, advantage is an elusive goal. The results of a recent McKinsey survey suggest one reason: just 53 percent of executives characterize their companies' strategies as emphasizing the creation of relative advantage over competitors; the rest say their strategies are better described as matching industry best practices and delivering operational imperatives—in other words, just playing along.

In this survey,¹ executives around the world answered a series of questions that allowed us to test how fully their companies' business unit strategies pass ten tests that we believe, based on years of work with clients and academic research, make for a good strategy.² The first—whether the strategy will beat the market by creating competitive advantage—is comprehensive. The remaining nine tests disaggregate the picture of a market-beating strategy, assessing how the strategy positions the company in the market, what level of insight the strategy rests on, and what the implementation plan involves. Nearly two-thirds of respondents indicate that their companies pass three or fewer of the ten tests, meaning that our description of the test closely describes a particular element of their strategies (Exhibit 1). And only 2 percent of respondents say their companies pass nine or all ten tests.

While it's certainly possible for a strategy to succeed at a company that fails all or even most of the tests, the results underscore that companies can do much more to pressure-test their

¹ The online survey was in the field from November 2 to November 12, 2010, and received responses from 2,135 executives around the world, representing the full range of industries, regions, tenures, functional specialties, and company sizes.

² See Chris Bradley, Martin Hirt, and Sven Smit, "Have you tested your strategy lately?" mckinseyquarterly.com, January 2011.

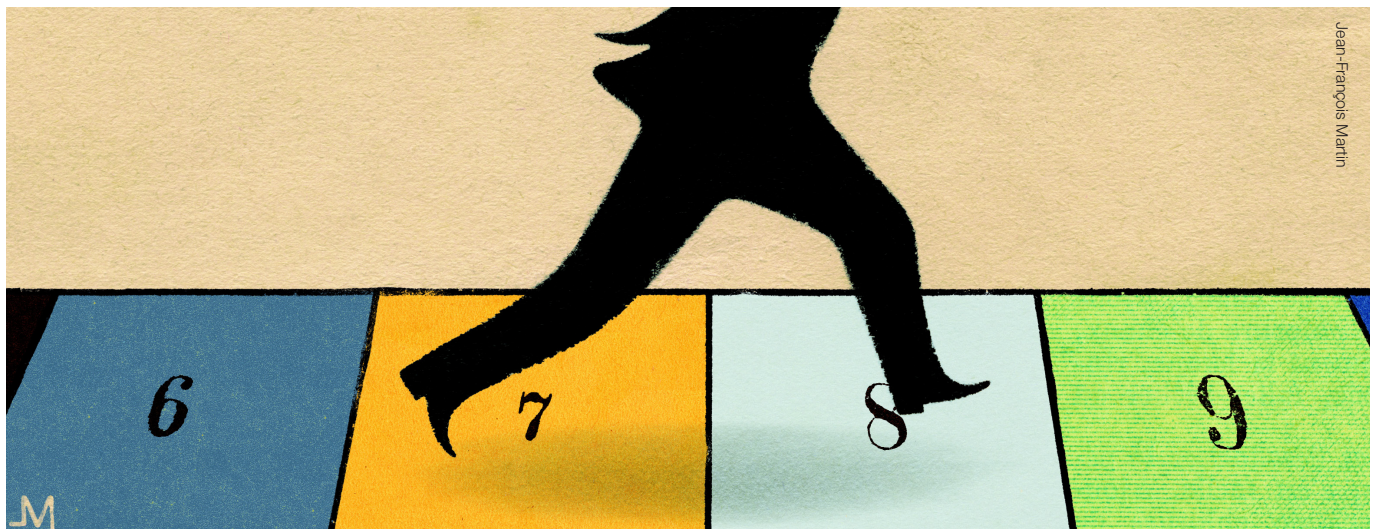
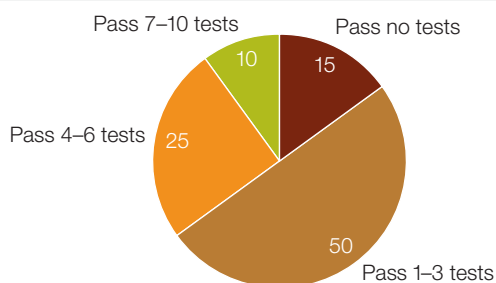


Exhibit 1

Passing the 10 tests

% of respondents,¹ n = 2,135

Companies' typical business unit strategies . . .

¹“Passing” a test means respondents selected a given test statement as the one that most closely describes their companies’ strategies.

strategies. The results also suggest some ways that companies can prioritize improvements in their approach to strategy based on the tests respondents say contribute most to financial performance and are most frequently used in their sectors.

Playing to win—or just playing along?

One striking result of this survey is the room for improvement in using these principles that, in our experience, generate competitive advantage—the average share of executives who say their companies passed an individual test is just 57 percent.



When we look at the specific tests, two stand out—one because it is widely used, the other because it is often neglected (Exhibit 2). Seventy percent of executives report that their strategies provide a mix of commitments and flexibility, as opposed to locking in key choices immediately. This suggests that these companies are comfortable building their strategies as a portfolio of different strategic actions: big bets aimed at gaining competitive advantage, no-regret moves that will pay off whatever happens, and real options that involve relatively low costs now but can be elevated to a higher level of commitment as conditions change.

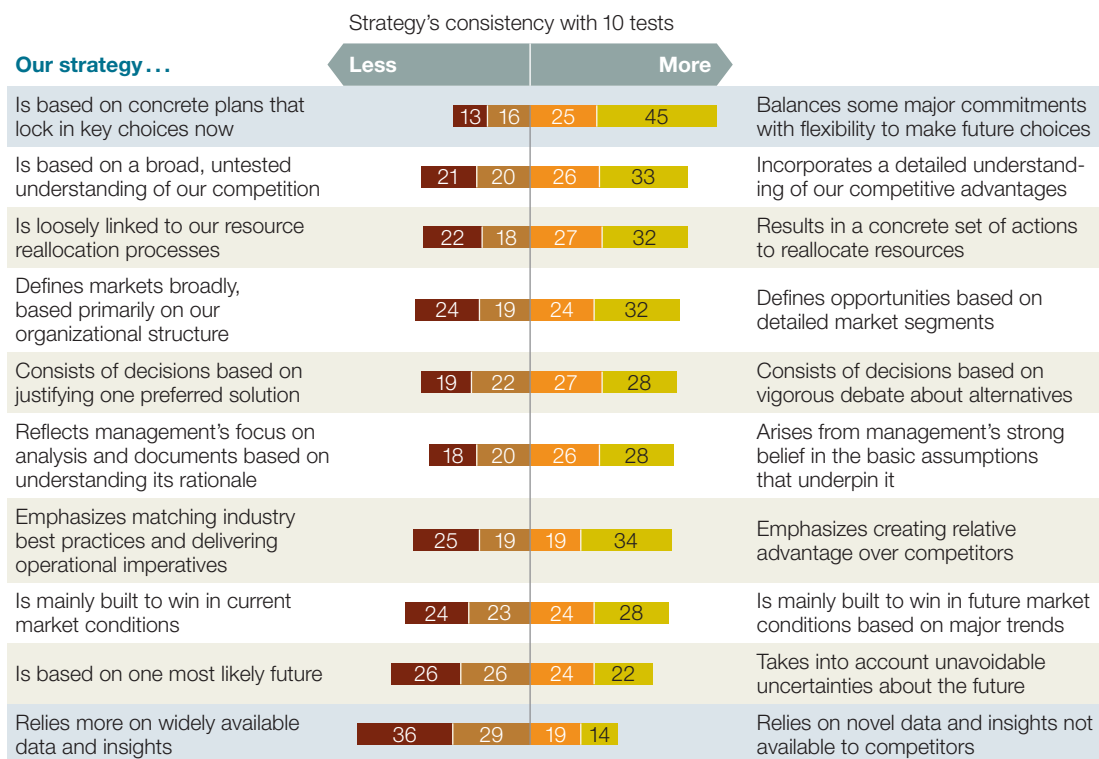
Exhibit 2

What companies do best

% of respondents,¹ n = 2,135

Test describes my company's strategy . . .

■ Least closely ■ Somewhat closely ■ Closely ■ Most closely



¹ Respondents who answered "don't know" are not shown.

Exhibit 3

Regional variation

% of respondents whose companies' strategies pass given test¹

Our strategy ...	By region				
	Total, n = 2,135	India, n = 206	China, n = 65	North America, n = 623	Europe, n = 701
Balances some major commitments with flexibility to make future choices	45	51	37	49	44
Emphasizes creating relative advantage over competitors	34	35	43	34	32
Incorporates a detailed understanding of our competitive advantages	33	48	33	31	31
Defines opportunities based on detailed market segments	32	42	40	31	30
Results in a concrete set of actions to reallocate resources	32	46	32	32	30
Consists of decisions based on vigorous debate about alternatives	28	45	29	29	25
Arises from management's strong belief in the basic assumptions that underpin it	28	35	23	29	26
Is mainly built to win in future market conditions based on major trends	28	43	40	25	25
Takes into account unavoidable uncertainties about the future	22	31	23	25	19
Relies on novel data and insights not available to competitors	14	20	18	14	13

¹ Respondents who answered "don't know" are not shown; "passing" a test means respondents selected a given test statement as the one that most closely describes their companies' strategies.

In contrast, only 33 percent say their companies' strategies rest on novel data and insights not available to competitors, rather than widely available data. One likely explanation: the widespread availability of information and adoption of sophisticated strategy frameworks creates an impression that "everyone knows what we know and is probably analyzing the data in the same ways we are." Yet if strategists question their ability to see something that no one else does, they are less likely reach for the powerful insight that is most likely to differentiate them from competitors.

Some notable regional differences show up in the responses. Executives in India, for example, indicate that their companies pass more tests more frequently than do executives in China, Europe, or North America (Exhibit 3). China-based executives rate their companies' strategies

higher than their peers in the other three regions on the fundamental test of emphasizing relative advantage, but they trail on balancing commitments and flexibility to make choices in the future.

Taking the tests to the bottom line

Whether executives say their companies pass a given test is likely, of course, to be partly related to whether they think it matters. And indeed, there is a rough correlation between passing a test and executives saying a test is instrumental to financial performance. For example, when asked which three tests have the most positive effect on financial performance, more executives select flexibility to make choices in the future than any other test. And as Exhibit 2 shows, this is the test the most companies pass. Conversely, novel insight is the test rated least important to financial performance and passed least frequently.

Only 12 percent of surveyed executives place novel insights in strategy among the top three influencers of financial performance.

When executives assess the tests' impact on financial performance, some interesting differences arise among industry sectors (Exhibit 4). Executives in the energy industry, for example, are likelier than all others to say a focus on trends has a good effect on their

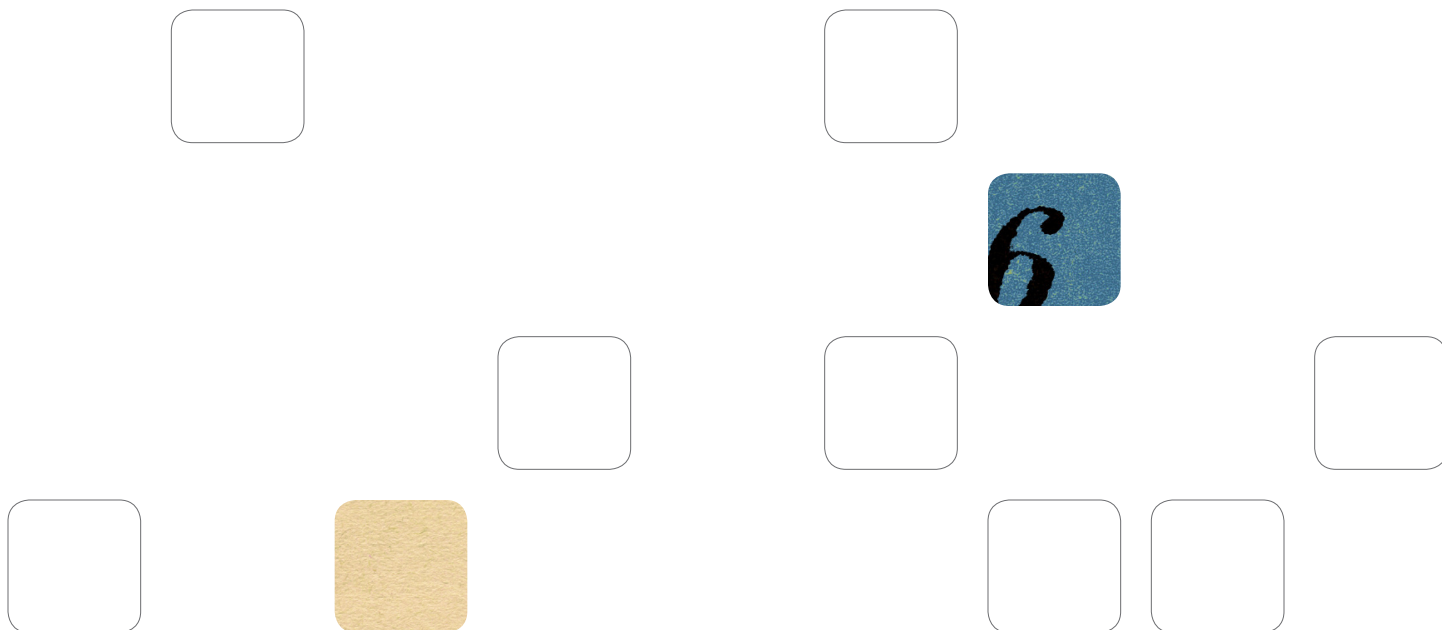


Exhibit 4

Testing performance

% of respondents rating the top 3 drivers of performance

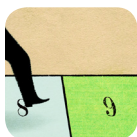
Which aspects of strategy have had the greatest positive effect on your company's financial performance?

	By industry					
	Total, n = 2,135	Business, legal, or professional services, n = 396	Energy, n = 84	Health care, social services, n = 81	High tech, telecomm, n = 274	Manufac- turing, n = 276
Most frequently ranked	Flexibility 41%	Flexibility 54%	Future market conditions 46%	Flexibility 49%	Relative advantage 48%	Relative advantage 43%
Second most frequently ranked	Relative advantage 40%	Relative advantage 42%	Relative advantage 38%	Belief in basic assumptions 48%	Future market conditions 42%	Market segmentation 40%
Third most frequently ranked	Reallocation of resources 36%	Understanding our advantage 34%	Understanding our advantage 38%	Relative advantage 34%	Belief in basic assumptions 39%	Belief in basic assumptions 40%
Our strategy...						
	Balances major commitments with flexibility	Is built to win in future market conditions	Emphasizes the creation of relative advantage	Arises from management's belief in its basic assumptions		
	Defines opportunities based on detailed market segments	Results in concrete actions to reallocate resources	Incorporates a detailed understanding of our advantage			

financial performance, with 46 percent saying so. Executives in the health care and high-tech sectors, meanwhile, stress the importance of management having a strong belief in the strategy's underlying assumptions; nearly half of them cite that test.

The influence of process

An intriguing finding is the possibility that the choice of tests and the forces that drive planning may be related. Besides gathering data on which tests respondents say their companies pass, we also asked what triggers companies to make decisions about strategy. Forty-four percent of respondents say their companies use a regular planning cycle;

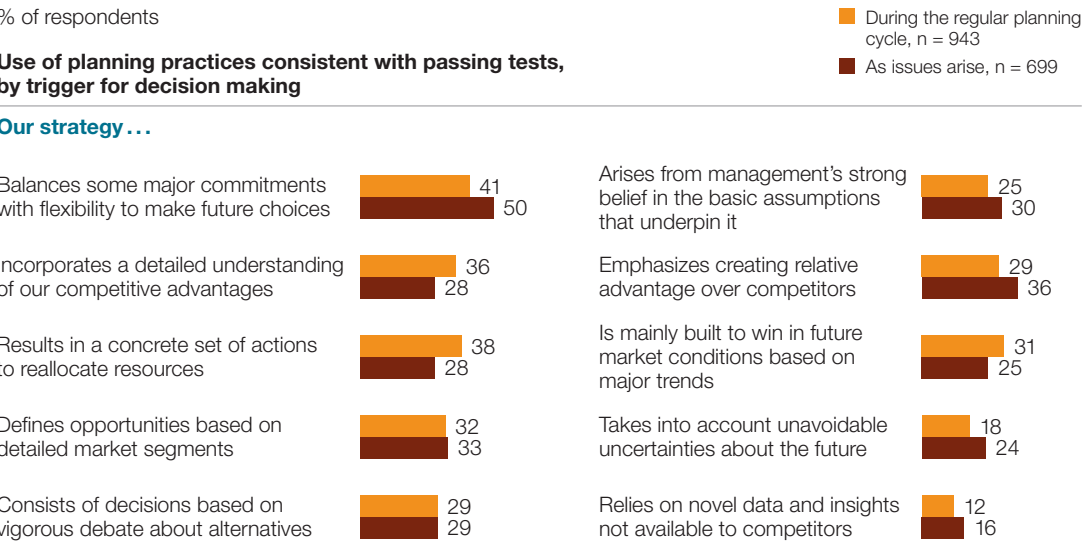


these executives are likelier to say their companies understand competitive advantage, incorporate trends, and allocate resources effectively (Exhibit 5). In contrast, 35 percent of respondents say their companies make decisions as they arise; they are more likely to say their companies manage uncertainty well, include flexibility to make choices down the road, and create relative advantage over competitors.³


The financial crisis of 2008 and the recession that followed revealed weaknesses in many strategies and forced many companies to confront choices and trade-offs they put off in boom years. Not surprisingly, a majority of respondents to this survey—56 percent—report that their companies are making strategic decisions more frequently than before. This increased speed may make it difficult for some companies to analyze each decision in detail. However, a shift toward shorter planning cycles only increases the need to focus on the timeless aspects of strategy that can drive competitive advantage, and to pressure-test strategies against them quickly.

³ The rest of the respondents either say their companies have no single trigger for making decisions or don't know.

Exhibit 5
The information gap



Looking ahead

- More than half of the executives in this survey indicate their companies don't pass even five of these ten tests. Although which tests matter most will vary from company to company, the results and our experience suggest that the companies that pay more attention to more of these tests early on will have a better chance of developing market-beating strategies later.
- The finding that executives in different industries see different tests as affecting financial performance indicates that one size does not fit all. Undertaking a thorough review of the strengths and weaknesses of your company's past strategies through these ten lenses, particularly the ones most relevant to your industry, will help you determine which are most relevant to your company's situation.
- In our experience, far too many companies don't develop their strategies with a process that could include the assessments these tests offer. Companies that overtly include these tests in their strategic development process have a good chance of besting competitors that don't. 

The contributors to the development and analysis of this survey include **Chris Bradley**, a principal in McKinsey's Sydney office; and **Eric Matson**, a consultant in the Boston office.

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