STRATEGY PRACTICE

Managing the strategy journey

Chris Bradley, Lowell Bryan, and Sven Smit

Regular strategic dialogue involving a broad group of senior executives can help companies adapt to the unexpected. Here's one company's story, and some principles for everyone.

Back in 2009, as the senior-management teams at many companies were just beginning to emerge from the bunkers to which they'd retreated during the peak of the financial crisis, we wrote an article[1] whose premise was that pervasive, ongoing uncertainty meant companies needed to get their senior-leadership teams working together in a fundamentally different way. At the time, many companies were undertaking experiments, such as shortening their financial-planning cycles or dropping the pretense that they could make reasonable assumptions about the future. But we suggested that the only way to set strategy effectively during uncertain times was to bring together, much more frequently, the members of the top team, who were uniquely positioned to surface critical issues early, debate their implications, and make timely decisions.

Since then, we have continued to evolve our thinking about how companies should undertake strategy development in the 21st century. For starters, we uncovered strong evidence that a great many companies are generating strategies that, by their own admission, are substandard. We reached that conclusion after surveying more than 2,000 executives about a set of ten strategic tests—timeless standards that shed light on whether a particular strategy is likely to beat the competition—and learning that only 35 percent of their strategies

---

[1] Lowell Bryan, "Dynamic management: Better decisions in uncertain times," mckinseyquarterly.com, December 2009.

passed more than three of these.[2] This unsettling statistic raised additional questions about the effectiveness of companies' annual planning processes, which still were the most-cited triggers for strategic decision making among survey respondents (Exhibit 1).

We also have been engaged with a number of companies (in industries ranging from telecom to health care to mining to financial services) as they've begun to embrace more frequent strategic dialogue involving a focused group of senior executives. These companies, in effect, have started on a journey—a journey to evolve how they set strategy and make strategic decisions. Their journey isn't complete, and neither is ours, but we've learned more than enough to take stock and pass on some ideas that we hope will be useful to leaders in many more organizations.

In this article, we want to focus on the big things that top teams need to do. The starting point is for them to increase the time they spend on strategy together to at least match the time they spend
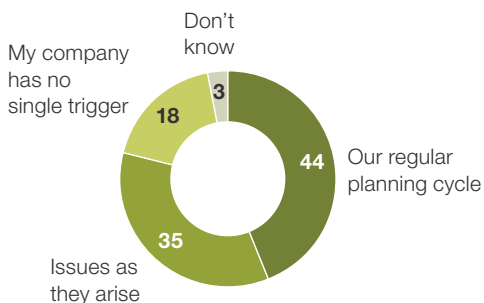
[2] For more on the tests, which we have discussed and refined with more than 1,400 senior strategists around the world in over 70 workshops, see Chris Bradley, Martin Hirt, and Sven Smit, "Have you tested your strategy lately?," mckinseyquarterly.com, January 2011. For more on the survey results, see "Putting strategies to the test: McKinsey Global Survey results," mckinseyquarterly.com, January 2011.
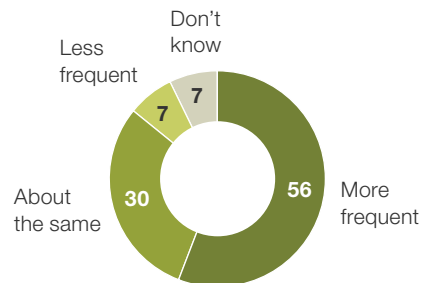
Exhibit 1

The annual planning process is frequently the primary trigger for strategic decision making.

%

What is the primary trigger, if any, for your company to make decisions about business unit strategies?

Don't know 3
My company has no single trigger 18
Our regular planning cycle 44
Issues as they arise 35

Compared with five years ago, how frequent is your company's decision making about business unit strategy?

Less frequent 7
Don't know 7
About the same 30
More frequent 56

Source: Jan 2010 McKinsey survey of 2,135 executives around the world, representing the full range of industries, regions, tenures, functional specialties, and company sizes

together on operating issues. Our experience suggests this probably means meeting two to four hours, weekly or every two weeks, throughout the year. Devoting regular attention to strategy in this way makes it possible to:

- Involve the top team, and the board, in periodically revisiting corporate aspirations and making any big, directional changes in strategy required by changes in the global forces at work on a company.

- Create a rigorous, ongoing management process for formulating the specific strategic initiatives needed to close gaps between the current trajectory of the company and its aspirations.

- Convert these initiatives into an operating reality by formally integrating the strategic-management process with your financial-planning processes (a change that usually requires also moving to more continuous, rolling forecasting and budgeting approaches).

To explain what this looks like in practice, we'll ground our discussion of these issues in the (disguised) experience of a global bank that took some severe hits during the 2008 financial crisis.

Setting aspirations and direction

Like many banks, the institution had responded by writing off most of its bad assets, raising capital, shrinking its balance sheet, and slashing expenses. Sometime in 2010, in the midst of the annual long-range financial-planning processes, the CEO and the board realized that while the institution was recovering from its financial losses, it didn't know where its future growth would come from. Nor was it clear what would be reasonable growth aspirations in an era of regulatory constraints on the bank's balance sheet.

The CEO decided, in concert with his board, to halt work on their long-range plan and to launch a concentrated surge of activity to refresh the bank's strategy. To start the process, the CEO invited the heads of his three major lines of business—the Global Investment Banking Group, the Global Asset Management Group, and the Domestic Bank—to meet regularly on how they could create a

strategy for growth within the constraints of the new era. Out of necessity, given the issues being discussed, these biweekly meetings were broadened over time to include the chief risk officer, the chief technology officer, the CFO, and a new hire responsible for moving the work of this new strategy council forward.

Changing the strategy of a large bank, or any large company for that matter, is a bit like turning a supertanker. The momentum of the institution is so strong that the ability to change direction quickly is limited. After all, the focus of the senior- and top-management teams of most corporations, most of the time, is on near-term operating decisions—particularly on delivering earnings in accordance with the financial plan. As a result, many, if not most, of the decisions that shape the future of organizations are made unconsciously in the flow of running the businesses or through annual planning processes that suffer from trying to cover all businesses and issues simultaneously (or through one-off projects).

In a reasonable time period, though—say, 18 months to two years—it is possible to change direction considerably. In our example bank, a key moment came when the leadership team coalesced on a shared understanding of the institution's competitive position, its "business as usual" financial trajectory, and a realistic set of future aspirations.

There was a significant gap between the bank's trajectory and goals, and an obvious set of "no regrets" moves to help close it. For example, the first major strategic decision that emerged from this council was to increase the bank's focus on balance sheet optimization and on risk-adjusted returns on equity. This would be critical in the new era of balance sheet constraints, and it led to a second major decision: to ensure that the bank's now-scarce balance sheet resources were being devoted to serving (and earning better returns from) its best, core customers.

After the top team committed itself to this direction, it quickly made difficult related moves, such as exiting some noncore businesses and reorganizing the bank along its core-customer group lines. That meant refocusing the Global Investment Banking Group by creating a far stronger focus on cross-silo customer relationship building, breaking up the Domestic Bank and Global Asset Management Group, and then reformulating them as a Domestic Retail Banking Group, a Domestic Corporate Banking Group, and a Global Private

Banking and Wealth Management Group. It also led to the departure of the head of the Domestic Bank.

However, everyone also agreed that the answers to many of the specific choices the bank needed to make about where and how to compete were not obvious and that many early ideas for expanding the business were at best vague and at worst fraught with significant risk. Also unclear was the right timing and sequencing for decisions such as whether to scale up investments with a number of global technology players supporting digital-banking partnerships or whether the bank should consider an aggressive push into the midsized-corporate and small-business markets as competitors were pulling back to minimize risks. So the top team and the board defined these choices as "issues to be resolved" and decided to go on a journey to address them. In other words, the surge effort was not the end of the process of formulating the corporate strategy but rather had served only to jump-start it.

Installing a rigorous ongoing strategy process

Once the concentrated surge of activity was over, the senior-management team's focus shifted from changing direction to resolving these outstanding issues. Addressing ambiguous critical issues in the flow of running a large company is a challenge different from making obvious directional changes in response to fundamental environmental changes, such as responding to a shift in regulation. The differences are largely in granularity and timing. In other words, it was fine that out of the surge effort our global bank had decided to emphasize balance sheet optimization and increase its focus on core customers, but what did that really mean? Which specific customers would be prioritized? What packages of services would be offered to which customer groups, and at what target returns? How would "deprioritized" customers be handled? What specific investments were needed, and what returns could the bank expect to earn on them?

These difficult questions benefited from serious top-management attention. Their diversity and complexity also underscore how important it is for the success of the journey model to have an agreed-upon process for surfacing, framing, and prioritizing the

critical issues to be debated and addressed through the top-management strategic forum. Even with extra commitment, the amount of time the senior team has for meetings is quite finite. Our experiences suggest some rules of thumb for keeping things manageable:

- Set a practical limit to the number of issues that can be pursued simultaneously at the corporate level; usually, given the time needed for review and debate at the strategy forum, no more than 15 to 25 can be managed in parallel.

- Develop a pragmatic approach for prioritizing issues. One way is to give each member of the forum a set number of slots on the agenda to bring forth whichever issues for review he or she thinks are most important. A few slots for critical issues—such as how to improve capital budgeting, which affects many different businesses—can be reserved for the corporate-wide perspective.

- Trade off quantity in favor of quality. If something deserves to be discussed by the top-management strategy forum, the staff work undertaken to address the issue should meet a high standard, and any recommendation made should be "owned" by relevant line managers.

Since some or perhaps many of a strategic-management forum's members won't have significant experience as strategists, it's worth pausing for a moment to reflect on the skills they may need to raise the right issues and discuss them effectively. Strategy capabilities aren't the focus of this article (for a related perspective, see "Becoming more strategic: Three tips for any executive," on mckinseyquarterly.com). That said, after we made the unsettling discovery that a great many leaders thought their strategies were failing the ten tests mentioned earlier, we began thinking about what specific things companies must get right to build strategies sufficient to meet those tests. We concluded that moving from idea to operating reality requires seven distinct modes of activity, summarized in Exhibit 2.

At the bank, the entire top team, as well as the project teams its members lead, has needed to employ many of these skills. One thing we've seen is that the bank's ability to manage uncertainty, which cuts across at least four of the seven modes highlighted in Exhibit 2

(forecasting, searching, choosing, and evolving), is a work in progress, as is the case at many firms. As a result, there is a tendency to leap from diagnosis to commitment without doing enough work on forecasting, exploring alternatives, and constructing packages of choices—or, for that matter, thinking about how a strategy should evolve as the passage of time resolves uncertainties embedded in the assumptions underlying it. At the global bank, developing these uncertainty-management skills is part of the journey that is still under way.

Converting strategy into operating reality

At the end of the day, strategy is about the actions you take. Therefore, one of the highest priorities of a top-management strategy forum is to ensure disciplined implementation of key strategic initiatives. A big advantage of the journey approach is that the process of debating and deciding on changes in strategic direction helps top-management teams get behind the new direction, particularly if the CEO holds the entire team collectively accountable for accomplishing it.

But more is needed. In our experience, the key is to take a disciplined approach to converting strategies into actions that can be incorporated in financial plans and operating budgets. One important capability that companies must develop to do this well is rolling forecasting and budgeting, so that needed investments can be made in a timely manner rather than waiting for the next annual planning cycle. In Exhibit 3, we show an example of the process of transforming a critical question—what are the retail bank's specific near-term opportunities in "big data"?—from idea into operating budget.

Obviously, an initiative must be fairly advanced—and granular—to justify putting the needed investments and expected returns into the rolling forecast and, eventually, into the formal annual fiscal budget and long-range plan. In our experience, it can easily take 18 months or longer to go from introducing a raw idea to putting it in the budget. When executives who have worthy ideas lack the budgets to pursue them with a sufficient full-time staff, we've found that it's valuable to fund their exploration with a small "pot" of corporate seed capital, to keep this spending separate from the operating budget (and safe from being squeezed out by earnings pressure).

Exhibit 2

Moving from ideas to execution requires seven distinct modes of activity.

Idea generation

Frame
What are our objectives and constraints?
- Define decisions to be considered
- Understand scope of potential solutions
- Clarify rules that will govern work

Baseline
What is the reality of our performance and capabilities?
- Understand sources of value and past performance
- Identify major changes in market and drivers
- Analyze available capabilities

Forecast
What do we expect of the future environment?
- Identify emerging trends and implications
- Isolate critical uncertainties
- Develop realistic div ergent scenarios

Development and selection

Search
What options do we have to create value?
- Establish and refine option set
- Assess possible competitive responses
- Evaluate options in given scenarios

Choose
What packages of choices will define our strategy?
- Decide where and how to compete
- Determine what, if any, hedging is needed
- Create coherent package

Execution and refinement

Commit
How will we deliver the changes required in the strategy?
- Develop action plans for selected options
- Reallocate resources to finance plans
- Determine how to communicate changes
- Delegate key jobs to pivotal roles

Evolve
How will the strategy unfold and evolve over time? How do we manage strategic risks?
- Execute agreed-upon action plans
- Track ongoing progress
- Determine revisions to be made
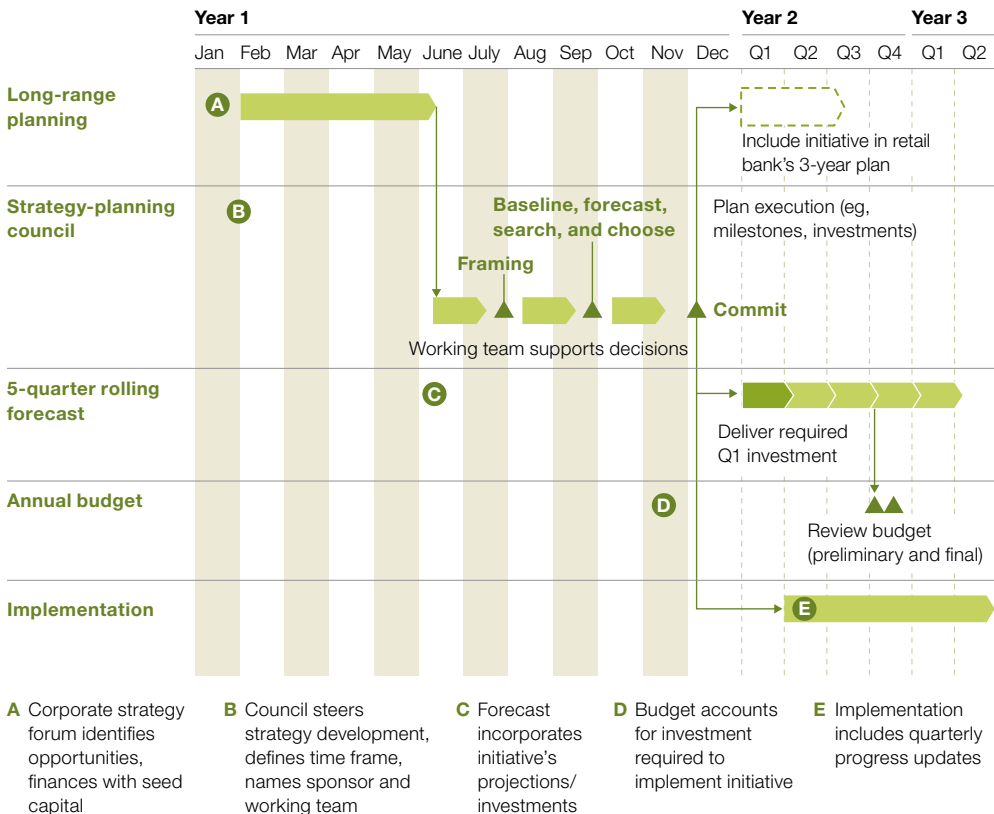- Determine when to compete

Although the journey is continuous, the board and the management team itself need to take stock of progress periodically. Moreover, companies still must produce and execute against annual financial plans and budgets. For most public companies, this requirement will mean continuing to have a formal board review of strategies, financial plans, and progress being made against them, every six months or so. A board meeting in the spring might be dedicated to reviewing the progress in agreed-upon changes in strategic direction; a late-fall board meeting could be used to compare the financial plans for the coming year (and for the next several years) with the company's aspirations. These formal reviews are important checkpoints.

Exhibit 3

A rolling process of forecasting and budgeting transforms a critical strategic issue into an operational initiative.

Illustrative example of big-data initiative in a large retail bank

	Year 1												Year 2				Year 3	
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Q1	Q2	Q3	Q4	Q1	Q2

Long-range planning
A → Include initiative in retail bank's 3-year plan

Strategy-planning council
B
Baseline, forecast, search, and choose — Plan execution (eg, milestones, investments)
Framing
Working team supports decisions — **Commit**

5-quarter rolling forecast
C → Deliver required Q1 investment

Annual budget
D → Review budget (preliminary and final)

Implementation
E → Implementation includes quarterly progress updates

A Corporate strategy forum identifies opportunities, finances with seed capital

B Council steers strategy development, defines time frame, names sponsor and working team

C Forecast incorporates initiative's projections/ investments

D Budget accounts for investment required to implement initiative

E Implementation includes quarterly progress updates

Having said that, a journey approach should affect the way a board works with management as well. The board should expect that strategic issues will be raised and strategic initiatives launched whenever top management feels that they are sufficiently important. That launch may or may not coincide with the timing of formal strategic reviews with the board. The board indeed should expect that the strategy of the company will not be carved in stone but rather that meetings of the board will be used as necessary to get it involved in the debate on major issues and in the continual evolution and refreshment of the enterprise's strategic direction. Such a dialogue should improve the board's understanding of *alternatives*

to chosen strategies, and that can enhance the quality of decision making and lend a valuable perspective down the road if things don't work out as planned.

The big difference between the journey model and others is that when a company isn't making sufficient progress, it doesn't pretend things are fine. Rather, these shortcomings are a call to action. If actual results begin to diverge significantly from aspirations (and related metrics of progress), that should trigger an in-depth review to explore whether a midcourse correction in strategy is needed, whether the company simply isn't executing against its strategy, or, as a last resort, whether it's time to revisit its aspirations—and make them more realistic.

As the global bank in our example entered 2012, it realized that the aspirations it had set in early 2011 still exceeded its current trajectory, particularly in the Global Investment Banking Group and the Domestic Retail Banking Group. As a result, the global bank has requested that not just these two groups but also the other two identify new initiatives they could undertake to help close the gap. The jury is still out on whether they will be able to do so or, instead, will need to revise their aspirations downward.

●　●　●

To create shareholder wealth in our turbulent 21st century, companies need to spend as much time on building and executing strategies as on operating issues. Those that do will build institutional skills and generate strategic ideas that evolve over time. Rather than fear uncertainty and unfamiliarity, these strategic leaders can embrace them, and make the passage of time an ally against competitors that hold back when the future seems murky. ○

Chris Bradley is a principal in McKinsey's Sydney office, **Lowell Bryan** is a director emeritus of the New York office and a senior adviser to the firm, and **Sven Smit** is a director in the Amsterdam office.