The Strategy Handbook

A practical and refreshing guide for making strategy work

Part I. Strategy Generation

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Contents

1 Motivation

This first chapter explains why this book was written, what you can expect, where the ideas in this book come from, and how you can use this book in different ways. Altogether, these four topics should give you a sense of the purpose and nature of this book.

The challenge: Putting strategy into practice

This book was written with one purpose in mind: Supporting you in making strategy work. To achieve this, I wanted to write a practical handbook that you can use to generate and execute strategy yourself. Perhaps you still need some support after reading it, but the overall idea of this handbook is that it should be self-explanatory so that it can be used independently.

I thought I had to write this book because the way strategy is generated and executed in the average organization that I've seen is not particularly compelling. Or to say it in a less political manner, the majority of organizations have substantial problems with strategy generation and strategy execution. Often there either a) is no strategy, b) it isn't clear enough, or c) it doesn't get executed. In the first case, strategy just doesn't get on the organization's agenda. Such organizations are typically too involved with survival and with running their daily business to pay attention to strategy. In the second case, there is attention to strategy, but the organization isn't able to get beyond vague mission and vision statements, quantitative goals, or abstract formulations that are otherwise not actionable. And in the third case, strategy remains a paper vehicle of which only a small part ever gets executed. In either case, the result is that strategy is unsuccessful.

These are not just my own observations. Numerous studies in recent decades confirm that strategy generation and execution are cumbersome processes. Dependent on the exact design of the studies, astonishing failure rates of 70-90 % have been reported. This means that just one out of every three to ten strategies are successfully executed. Even though strategy is a complex matter, that is a pretty poor score. Typical problems that have been found in such studies are vague strategy, conflicting priorities, over-optimism, a lack of addressing market needs, mismatch with the organization, lacking guidelines for implementation, lack of commitment, and so on.

These problems with strategy generation and execution certainly do not occur due to a lack of strategy books. On the contrary, a quick search on Amazon.com reveals that there are already over a 100,000 books on strategy. So, could another book like this make any difference? I hope so and I have an optimistic belief that it could. To find out how, we need to see how this book tries to be different from existing books. Of course, I have not read all 100,000+ of them, so I might have missed something. However, from what I've seen, we can roughly divide the existing books into two categories: Broad strategy books and focused strategy books.

"The majority of organizations have substantial problems with strategy generation and strategy execution."

Broad strategy books, such as strategy textbooks, typically try to cover the entire scope of strategy by offering a collection of tools. Some of these tools are known under acronyms such as PESTLE, SWOT, 5FF, 7S, VRIO, 4P, BCG, or BSC. These tools are useful and the books are too. They support strategic analysis and making generic choices. But they hardly facilitate designing and developing concrete new strategy that can be executed. So they are quite good at telling you *what* you should pay attention to when generating and executing strategy. However, they don't give much guidance as to *how* to do it. Thus, although not entirely *im*practical, they are not practical enough.

On the other hand, there are focused books that are quite valuable too and often more practical. Such books typically try to make a specific point and a focused contribution to existing strategy approaches. I want to name four specifically, since they have been a great source of inspiration for me while writing this book: Chan Kim and Renée Mauborgne's *Blue Ocean Strategy*, Alexander Osterwalder and Yves Pigneur's *Business Model Generation*, Saras Sarasvathy's *Effectuation*, and Eric Ries's *The Lean Startup*. These four are all inspirational and practical books on strategy and entrepreneurship that provide new and different insights into how to generate new strategy. However, they offer partial solutions, not complete strategy approaches.

Thus, we have rather complete but not so practical strategy books on the one side, and rather practical but not so complete strategy books on the other. In order to be successful in practice though, you need both. Therefore, in this book, I have tried to take the best of both worlds and turn that into a practical strategy handbook that outlines a practical approach to strategy.

Recipe for a handbook?

But what should a practical strategy handbook look like? For one thing, it needs to put strategy back on earth. If we look at how it is treated by textbooks, MBA programs, scholars, consultants, and organizations generally, strategy is often put too much on a pedestal. It seems some sort of mystical and elite boardroom thing that is made bigger than it actually is. Of course strategy is extremely important for organizations. However, as I hope to show you in this book, strategy can also be approached in a practical, down-to-earth manner.

A strategy handbook also needs to be rather complete without becoming bulky. If we want to foster successful strategy generation and execution, we have to make sure that all important steps and elements of strategy are covered. This means that this book does not just cover strategic analysis and decision-making, but also less honorable tasks such as turning strategy into a communicable message and getting people to actively work on strategy in the first place. It also means that a strategy handbook should cover strategy generation *and* strategy execution. Therefore, the book you are reading now is the first part of a series of handbooks. There will also be a second part on strategy execution. As I will briefly discuss in Chapter 2, strategy generation and execution are inextricably linked in practice and both are needed for successful strategy. I found it more practical though, to discuss them in two separate books. At any particular point in time you might only be interested in one of them. And if combined, the printed book would be about twice the size as it has now, which would make it pretty inconvenient to carry – and therefore less practical.

"A strategy handbook needs to put strategy back on earth."

Since strategy is a complicated matter, a handbook should also be structured and thorough. On the one hand it should provide you with a clear step-by-step approach that guides you through the strategy process and makes sure that you don't skip essential steps. In order to remain practical, this approach needs to be as clear and simple as possible. On the other hand, exactly because strategy is a complicated matter, there is no use in dumbing things down. Strategy is simply difficult and you won't benefit from this handbook if it pretended strategy was easy. Therefore this book aims at balancing simplicity and depth.

A strategy handbook also needs to be concrete and hands-on. Concrete means that it has to descend from high-level mission and vision statements and from generic strategies and objectives towards the concrete elements of which strategy is composed. Only in that way can we make sure that we actually understand what is meant by strategy and assess whether it is good or not. Hands-on means that it provides you with information and tools that you can immediately apply in your own situation. In other words, it means that a handbook should be action-oriented and stimulates *doing* strategy rather than just thinking and talking about it. From Chapter 2 on you will see how this has been incorporated in this book.

Finally, a practical strategy handbook needs to be realistic as well. I certainly don't mean that it should limit your ambition and creativity and narrow down strategizing to small incremental changes. On the contrary, a strategy handbook should foster creativity and push you to come up with radically new ideas that go beyond the status quo. What I mean though, is that it should not ignore what is already there. Even in startups, but especially in existing organizations, there always is a current strategy that is lived by the organization and its people today. Whether we want it or not, this current strategy will have a large impact on any future strategy. This means that a strategy handbook has to embrace it and give it a proper place.

Origins and methodological basis

Maybe you have read other strategy books. Quite a few of them – especially the ones that you find at airports and in local bookstores – are based on a set of in-depth case studies of several large, successful (and often US-based) firms. These books typically present 8-10 key rules of thumb supported with examples that tell you the do's and don'ts of strategy.

"This book draws on the vast body of literature on strategy and on my own experience."

That is interesting and useful, but this book has a slightly different basis. Rather than drawing on few case studies, it draws primarily on the vast body of knowledge on strategy that has been published over the past few decades. Because this covers thousands of case studies and incorporates the ideas of hundreds of intelligent authors, I thought this would be a more reliable basis than adding another set of case studies. And as it turns out, this body of knowledge is quite rich and useful.

The book also draws on my own experience. The strategy generation process and tools presented in this book have been developed on a trial-and-error basis with clients, executive students, and seminar participants. Furthermore, wherever possible I've applied them to my own business as well. So, much of what I preach in this book, I practice too. For those of you who are interested, the following few pages give a more detailed account of the journey that has led to this book.

The start: Dissatisfaction, enthusiasm, and mismatches

The journey started with, on the one hand, dissatisfaction with some of the most widely-used strategy tools, in particular the SWOT analysis. As yearly studies by some of the big consultancy firms show, this is still amongst the most used strategy tools. As a tool though, its usefulness is limited because it is highly abstract and subjective and because it barely provides people with any real structure that helps them. The same, but to a lesser degree, applies also to other frequently used tools such as Michael Porter's 'five forces framework' and Michael Treacy and Fred Wiersema's 'value disciplines'. Although useful, my feeling was that it was possible and necessary to come up with something more practical and concrete than that.

> "It took six major versions and interactions with executives, managers, and entrepreneurs of about three hundred organizations."

On the other hand, I came across Alexander Osterwalder's PhD thesis and his 'business model canvas' (BMC) about five years ago. This canvas breaks down an organization's business model into its key elements and puts these together on a single sheet of paper, thereby providing a nice overview of what to pay attention to. This ingenious tool really helped companies innovate their own business models. So, I enthusiastically adopted it in my own teaching, training, and consulting activities, which worked quite well for a while.

When using the BMC more often though I started experiencing some limitations. I noticed that anything that was not mentioned in the BMC tended to be forgotten or ignored by people that use it. While Osterwalder and Pigneur's accompanying 'Business Model Generation' book pays attention to, for example, competition, this moved to the background when using the BMC because it was not covered in the canvas itself. Thus, people tended to exclusively focus on what was covered by the BMC. This is quite natural, and any model has this focusing effect: It draws attention to some factors, thereby moving attention away from other factors. However, if the attention is drawn away from key elements of strategy – such as competition – this is a problem. My conclusion was therefore that everything that is of crucial importance for strategy should be part of the same tool.

Also, when comparing the BMC to the strategy literature, there were some mismatches. Why, for example does the BMC pay explicit attention to customer relationships and channels, while this is not a central element in the strategy literature? Or, why doesn't the Business Model Generation book talk at all about an organization's mission, vision, and values, while these are essential elements of strategy? As I couldn't find satisfying answers to these questions, I concluded that a better tool was needed.

The next step: Harvesting published insights

As a next step, I started gathering ideas from the existing literature for what an improved model and strategy approach should look like. In doing so, I combined insights from:

1. The traditional strategy literature. Dating back more than a century (some would even argue 2500 years) and growing exponentially over the past few decades, this literature provides in-depth insights into what strategy is, where it comes from, and what the important factors to consider are.
2. Recent approaches to strategy, business model generation, and design thinking. I reviewed, for example, alternatives for the BMC such as the 'lean canvas' and other design-oriented strategy tools and books.
3. Recent approaches to entrepreneurship, including 'effectuation', 'bricolage', and the 'lean startup' approach that reveal how experienced and successful entrepreneurs work.

All in all, I've read about two thousand books and academic papers on these topics over the past fifteen years. This, I thought, would form a reasonable starting point for developing a practical model and approach to strategy.

The actual work: Design, trial, and error

Based on the first two phases I developed a first version of an alternative model to the BMC. This version was used in a couple of workshops with entrepreneurs, quickly leading to the conclusion that it wasn't the great improvement I had hoped for and that I needed to go back to the drawing board. Consequently, I made adjustments, made a new version, tried it out in practice again, revised, and so on and so forth. In a period of about three years various versions were tested in this way by:

- Discussing it in training sessions and executive MBA lectures with managers and entrepreneurs.
- Asking experts from practice and academia for feedback and suggestions.
- Blogging about the various versions and collecting online and offline responses.
- Applying it in workshops and consulting activities with managers and entrepreneurs.

Altogether it took six major versions and interactions with executives, managers, and entrepreneurs from about three hundred organizations before the final tool was ready. I then labeled it the *Strategy Sketch*, about which you will read more in Chapter 2.

These interactions also taught me a lot about how the Strategy Sketch could and should be used in practice. This provided me with further inputs for what the strategy generation process should look like and what kind of tools would be useful to support it. This crystallized into the five-step approach that this book is shaped around. Finally, several scholars and practitioners have read earlier versions of this book and provided me with extremely helpful feedback and suggestions.

Four ways to use this book

Of course it is completely up to you how you use this book. You might read it page by page and from cover to cover. However, when actually using it as a handbook, I guess you also might want to skip parts, or move back and forth between different parts of the book. To guide you a little I have anticipated four ways of using this book. These four ways vary in the extent to which they actively make use of the process and content that are provided.

1 Checklist approach

The lightest of all four, the first approach is to use the book as a checklist to make sure that you pay attention to all the elements of strategy and all the steps of strategy generation. You might want to follow this approach when you are already knowledgeable about strategy and basically know how to generate it successfully. If you aim for this approach, you can immediately jump to the sections 'The ten elements of strategy' and 'The five steps of strategy generation' in Chapter 2 (pages 20 and 30).

2 Fast and frugal approach

The fast and frugal approach covers the core ideas of this book in a quick way. If you want minimum efforts, and to see some results, I suggest using this approach. For this you could use the following two parts of the book in addition to the two sections above:

- Chapter 4 (Mapping strategy). Based on the main tool of this book, the Strategy Sketch, it contains a set of questions, exercises, and inspirational checklists that you can use to quickly understand your current strategy and innovate it.
- The 'Stepping back for a moment' section on page 110. This section outlines a simple fast and frugal format you can use for strategy generation and that fits the structure of Chapter 4.

> "You might want to skip parts, or move back and forth between different parts of the book."

3 Systematic approach

You may also prefer a more systematic approach during which you go through a step-by-step process and reach more depth than with the fast and frugal approach. By following the systematic approach you make sure that you don't skip important parts of the strategy generation process. In this case, I suggest using the following parts of the book in addition to the parts mentioned above:

- Chapters 3 through 7, which present the five key steps of the strategy generation process: activating, mapping, assessing, innovating, and formulating strategy. Each of these chapters contains a variety of tools and tricks to guide you through the entire strategy generation process. You might want to focus on the questions, exercises, inspirational checklists, and examples, but skip the ‘useful models’ sections.

- Chapter 8 (Strategy generation formats), which presents five formats that can be used for strategy generation. Instead of the fast and frugal format, you could also use one or more of the other formats suggested there.

4 Unabridged approach

The most comprehensive way of using this book is the unabridged approach. With this approach you read the entire book carefully and use as much of it as possible during the strategy generation process. There are three reasons why you may want to do this. First, it is the best guarantee that you will be successful in generating new strategy. The effort is larger than with the other approaches, but so should be the pay-off. So, if you aim for maximum results, this is your approach. The second reason for following this approach is that it helps you in building up your own strategy expertise. By reading all the chapters and going through all the tools – including the ‘useful models’ sections – you can develop a deeper understanding of strategy generation. And third, reading the entire book increases the chance that you stumble upon something that you find particularly interesting or useful.

Whatever approach you choose, I wish you all the best in your strategy generation efforts! So, let’s get started.

2 Getting ready

Whereas the first chapter has mainly given you some background to this book, this second chapter prepares you for the actual work. It defines and explains what strategy is and what the strategy generation process looks like. Also, to help you translate the ideas of his book into your own practice, the chapter introduces you to the four examples that will be used throughout this book, and shows you the mindset needed for effective strategy generation.

Defining Strategy

An important thing to know upfront is that this book is mostly about what is called 'business level strategy'. Business level strategy is strategy at the level of business units and small to medium-sized firms. Typically it concerns organizations with a limited portfolio of products and services and that are run as single businesses. 'Corporate level strategy,' on the other hand, is strategy for larger organizations with multiple business units or divisions. Although important too, corporate level strategy is not covered in this part of the handbook. So, keep in mind that, whenever I use the word 'strategy,' I refer to business level strategy. Let's now turn to the meaning of that word.

> "Stripped down to its essence, a strategy is a unique way of sustainable value creation."

There are almost as many definitions of strategy as there are people writing about it. Some focus on long-term planning, others on differentiating the organization from its competitors, and still others on an organization's actual decisions and actions. That there isn't a universal agreed-upon definition of strategy doesn't really matter. However, I should be clear about what is meant by strategy in this book because it has a substantial impact on how you generate and execute it.

I will start by providing a short definition of strategy. This provides you with an idea of the role and purpose of strategy. Then, in the next section, I will move on by presenting the elements strategy is made up of. This is needed to make sure that we actually understand and are talking about the same thing when we use the word strategy.

A short definition of strategy

Stripped down to its essence, a strategy is *a unique way of sustainable value creation.* So, if we ask someone what the strategy of their organization is, we ask them about the organization's unique way of sustainable value creation. To understand what this means, let's look part by part at this definition.

Value creation

Strategy aims at creating something that has value and that matters to at least a number of people or organizations. This means that a strategy expresses what value an organization has and for whom. Organizations primarily create value through their products and services. This is what they produce, and as such this can be seen as their main reason of existence. Therefore, value creation is about the value an organization creates through its products and services.

Customers buy these products or services because they fulfill a particular need or desire. And since customers may buy them for very different reasons, value is subjective. People may buy a watch, for example, for very different reasons: Because it tells the time, because it is beautiful, or because it is expensive. This means that there is no absolute way of saying that something is valuable or an absolute way of measuring it. Of course, we can see the price of products and services, but this is not the same as their actual value for a specific customer. Furthermore, people may strongly disagree about what is valuable and what not. Because of this subjectivity, a strategy needs to express for whom value is created.

Sustainable

Strategy aims at value creation that is sustainable over time. This implies first that a strategy should be hard to copy or circumvent by others. Protection by patents might be the first thing you think about, but there are other ways as well. Think of, for example, secrecy, or having a unique and hard-to-imitate network.

Second, sustainable also means that an organization receives something in return for the value it creates. Usually this is money – if no one pays for the value that is created, an organization will have a hard time to sustain itself. It can also be information or other goods, though. Think about, for example, Facebook or Google, which are 'free' because you provide personal information in exchange for their products.

Third, to be sustainable a strategy also shouldn't rely too much on resources that are easily depleted. There is a touch of ethics because we could argue that organizations *ought to* make sure that they don't exhaust their resources. However, there is a practical component too: If a strategy relies on resources that are soon gone, this strategy cannot be sustained.

Finally, to be sustainable, a strategy should take into account the interests of important stakeholders. These are the people or organizations that influence your organization or are influenced by it. Examples are customers, suppliers, or interest groups. From an ethical point of view you could argue that organizations ought to take responsibility for their stakeholders because that is a good thing to do. However, also more practically this is a good idea, because if your strategy doesn't take care of your important stakeholders, it will be hard to sustain.

Unique

A good strategy aims at doing something different from others. This doesn't have to be 100 % unique, but it should have at least some unique elements. This uniqueness may come from anywhere. You can think of, for example, your location, the specific history of the organization, or the friendliness of your employees. Uniqueness is so important because without it you cannot distinguish yourself from others. And if you want to compete with them, or convince customers to buy your products or services, you need to be able to tell what is special about you.

Way

Strategy is not a fixed product, a set of goals, or a long-term plan that remains stable over time. Neither is it a statement or a slogan, or limited to what is written down in official documents. All of that we could call an organization's *explicit* strategy – the strategy as it is officially communicated. But that is not an organization's true strategy.

An organization's true strategy appears more implicitly in what it does; in its processes, actions, and routines. That strategy is an ongoing and active process that is lived by the organization on a daily basis. Thus, much more than a piece of text, strategy is a way of doing something – a unique way of sustainable value creation.

"An organization's true strategy appears implicitly in what it does; in its processes, actions, and routines."

The ten elements of strategy

The above definition helps us to get at the essence of strategy and what it aims for. This is important, as it makes clear what strategy is and why we should bother about it in the first place. For actually working on your strategy, though, this definition is too abstract. To see how an organization can offer a unique way of sustainable value creation, we need to look more in depth at the elements strategy is made up of. A reading of the strategy literature and feedback during the writing process revealed ten core elements of strategy. Throughout this book I will frequently refer to these ten elements. In brief, they comprise the following:

1 **Resources & competences.** ***What you have, what you are good at, and what makes you unique.***

Your resources and competences reflect what kind of unique means your organization has and what it is capable of. Resources are the things that you *have*, such as machines, people, information, location, money, and so on. Competences are the things you *can do*. These are the skills, capabilities, and processes you're good at. Together, these means determine to a large extent what kind of products and services an organization can offer.

2 **Partners.** ***Whom you work with and who makes your products or services more valuable.***

Not only are your own resources and competences important for your strategy; also are those of the organizations and people you work with. Think of, for example, suppliers, universities, logistics services, or any other type of organization that could support you in offering something unique. Also, think of your or other people's personal networks, since these can give you access to valuable information or other means that the organization doesn't have.

3 **Customers & needs.** ***The organizations and people you serve and which needs of them you fulfill.***

Obviously no organization can do without customers. Therefore, a strategy needs to specify who they are and what needs they have. To do this properly you do so on two levels. On the surface level you specify the kind of organizations or people you are targeting and which of their needs you are trying to fulfill. On a deeper level, you are also looking at the specific people that are involved. Think of those who *use* the product, those that *pay* for it, the people *deciding* about it, and those who *influence* and initiate that decision. They are all your customers and all their needs are relevant.

"A reading of the strategy literature and feedback during the writing process revealed ten core elements of strategy."

4 **Competitors.** ***Others that your customers will compare you to in deciding whether or not to buy your products or services.***

Partners are the ones you work *with* and customers are the ones you work *for*. Competitors, on the other hand, are those people and organizations you work *against*. While you don't necessarily need to fight them aggressively, you have to deal with them somehow, if only because your customers can only spend their money once and compare you to them. Your competitors obviously include those organizations that do something similar to your organization. But don't forget substitutes or potential future competitors that might enter your industry soon. You are competing with them as well.

5 **Value proposition.** ***What products and services you offer, how you offer them, and what added value they have for the customer.***

Your resources and competences and your partners determine what value you *can* create. Your customer and needs and your competitors, on the other hand, tell you what value you *should* create. With these inputs we can now move on to the core element of your strategy: Your value proposition. A good value proposition consists of three closely connected parts: 1) the *products or services* that you offer, 2) the *way* you get them to the customer, and 3) what they do to create *value* for the customer.

6 **Revenue model.** ***What you receive in return for your offer, from whom, how, and when.***

When you create value you probably also want to get something in return. This is reflected in the sixth element of strategy, your revenue model. In plain terms, your revenue model shows how your organization makes money. A good revenue model explains *who pays* (this could be people other than your customers, such as a sponsor), *for what* (for example, for owning the product or for just using it), *how much* (the price level), and *how (*such as paying in advance or a subscription). Don't take payment too literally here. As we saw in the definition of 'sustainable' on page 18, it can also consist of information or any other type of goods.

7 **Risks & costs.** ***What financial, social, and other risks and costs your bear and how you manage these.***

No strategy comes for free. Good strategy, therefore, makes clear what costs and risks there are and how the organization deals with them. Costs can be predicted and controlled quite well. They include financial but also other costs such as time, effort, pollution, or social effects. Risks, on the other hand, cannot be easily predicted or controlled. They reflect the bad things that could happen as a result of your strategy. Think of product risks, safety risks, technological risks, or financial risks.

8 **Values & goals.** ***What you want, where you want to go and what you find important.***

Together, the first five elements explain how your organization creates value and the sixth and seventh element reflect what you get in return. These cover an important share of your strategy. However, these elements don't say anything about the organization itself yet. For that reason, we need two further elements that represent your organization's identity. The first are your values and goals. These indicate what is important and desirable for the organization. To make this clear it is useful to make a distinction between the *vision* (the aspirations or dreams for the future), the mission (what kind of organization it should be on your journey towards this vision), *key values* (what is important), and *objectives* (what you want to achieve concretely).

9 **Organizational climate.** ***What your culture and structure look like and what is special about them.***

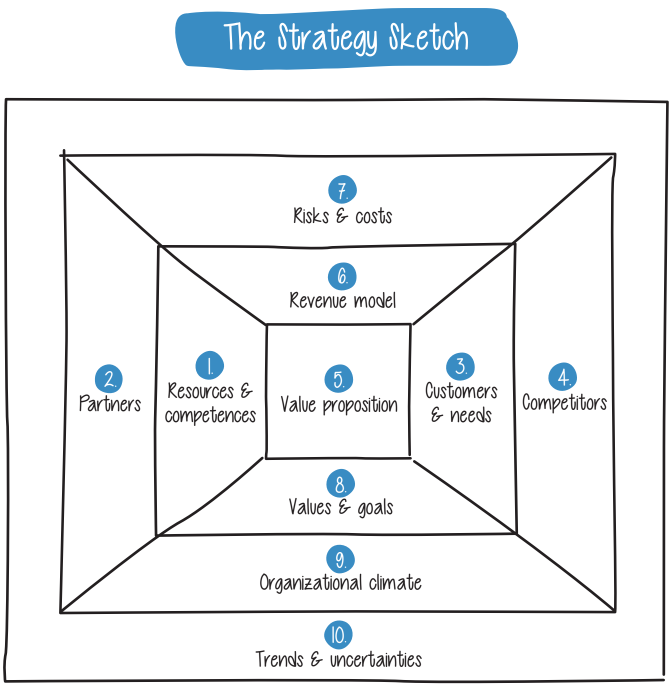
The second part of your identity is the organizational 'climate.' This covers the structure and culture of the organization. The organizational *structure* is the way tasks are divided and coordinated. Think of the organization's chart, job descriptions, and the way things are communicated. The organizational *culture*, on the other hand, reflects the attitudes and behaviors that are characteristic of the organization. You find it in, for example, the organization's symbols, dress code, stories, or habits. The organizational climate is important for your strategy because it can be an important enabler or barrier. An innovative 'boutique' strategy, for example, asks for quite a different climate than a large-volume, low-cost strategy.

10 **Trends & uncertainties.** ***What happens around you that affects your organization and what uncertainties you face.***

The tenth and last element of strategy concerns the relevant trends and uncertainties that are happening in the direct or broader environment of your organization. *Trends* are changes in your environment that are relatively clear and inevitable and that you will somehow have to deal with. You might think of increased automation or a shrinking market. *Uncertainties* are the changes in your environment that you don't know the outcome of yet. Think of, for example, a new law that might or might not be passed and that will have a direct impact on your strategy.

The ten elements in a picture: The Strategy Sketch

With ten elements, this is quite a list. But now you have all the key elements of strategy. Together, these ten elements give a much more detailed and concrete idea of the meaning of the term strategy than the definition gave. As a list though, it might look still somewhat unstructured. Therefore, inspired by the Business Model Canvas, I've developed a visual tool that combines the ten elements in a structured and coherent way and that will be used throughout this book: *The Strategy Sketch*.



On the left-hand side of the Strategy Sketch we find the organization's *means* – its resources and competences and its partners. These tell you what value the organization is able to offer. On the other side we find the organization's *market* – its customers and needs and its competitors. These show you the kind of value that is being asked for. Together with strategy's core element – the value proposition, these elements show how the organization creates value.

> "The Strategy Sketch: A visual tool that combines the ten elements of strategy in a structured and coherent way."

Above the value proposition we see what the organization gets in return for the value it creates through its combination of revenue model and risks and costs. Below the value proposition we find the organization that is doing all of this and that drives and supports the value proposition – represented by its values and goals and its organizational climate.

Finally, around these nine elements we find the trends and uncertainties that form the wider context of the organization.

Defining strategy generation

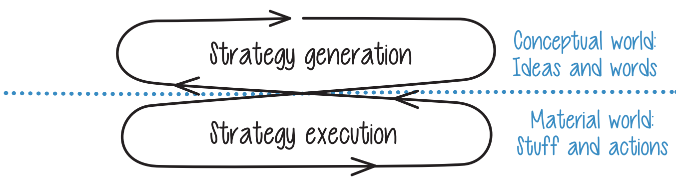
Now we have seen what strategy is and what it is composed of, we can move on to defining strategy generation (this section) and discussing the steps it is made up of (next section). I will start by discussing the relationship between strategy generation and execution and then move on to discussing the three key features of strategy generation.

The relation between strategy generation and strategy execution

Strategy generation and strategy execution are two intertwined but quite different processes. Both are needed for a strategy to be successful, but they are also distinct. Simply put, strategy generation is about *developing ideas* and strategy execution is about *realizing* those ideas.

The most common way of seeing the relationship between them is to present them as two sequential stages in a process: You generate strategy first, and than execute it. While this is intuitive and easy to understand, I find it more useful to see strategy generation and strategy execution as two parallel processes (see the figure below). Strategy generation is a *conceptual* process in which strategy is thought up, imagined, talked about, etc. Strategy at this level exists in people's minds, and in words and pictures that can be shared. Strategy execution, on the other hand, is a process in which strategy is actually *realized* through people's actions and by doing something with 'stuff' – technology, materials, buildings, etc.

The relationship between strategy generation and strategy execution



Strategy generation and execution influence one another. This is important because it means that not does only strategy generation influence strategy execution, but also the other way around. Of course, strategy generation may come before strategy execution, and your organization might separate them definitively into two stages. However, it is also possible that strategy execution precedes strategy generation – you might do something first and only later think about it and learn from it. And even if strategy execution comes formally after strategy generation in your organization, it still influences strategy generation: You will usually somehow take into account whether the strategy you generate can also be executed.

Key features of strategy generation

When you engage in strategy generation, it is good to understand what kind of process you're getting yourself into. This gives you an idea of the kind of activities you will be primarily doing. From

“Strategy generation and strategy execution are two intertwined but quite different processes.”

reading the average strategy textbook, you might get the idea that strategy generation is primarily an analytical and rational process. Strategy generation as it is presented there typically relies heavily on information gathering, thorough analysis, systematic decision-making, and careful planning. If we want strategy generation to be practical though, we also need to take into account that strategy generation is a *creative*, *interactive*, and *emergent* process.

Strategy generation is creative
A first key feature of strategy generation is that it is a creative process. This means that it is about using your imagination, intuition, and judgment to come up with original insights and ideas. So, you shouldn’t over-rely on ‘objective’ information and ‘rational’ analysis, but combine this with a good dose of your own and others’ individual and subjective input. Since your competitors probably have access to the same ‘objective’ information and use the same kind of ‘rational’ analysis, only in this way can you expect to come up with something unique that is different from what they will be doing.

That strategy generation is creative also means that it is a process in which you *create* new things that weren’t there before. This includes creating new products, services, customers, markets, and even creating (or at least influencing) your broader environment. Rather than making yourself over-dependent on your environment, try not taking it too seriously. Next to analyzing it, also try to influence it and focus on those actions that are within your own control rather than those depending on where the environment might or might not go. This is often more useful than relying on some market research that might tell you whether there is a demand for your product or not. Expert entrepreneurs work this way, so why shouldn’t you?

Finally, ‘creative’ also means that you should try to have some fun during the strategy generation process. Of course, strategy is a serious matter with serious consequences for your organization. But if you can have some fun during this process it will not only lead to a nicer process, but also to better outcomes, as having fun boosts your creativity and increases your chances of better outcomes.

Strategy generation is interactive

If done well, strategy generation is an interactive process. From traditional books on strategy you might get the idea that you can strategize effectively by locking a few people up in a room with some models and a lot of information. I haven't seen this work very often or very well. If you want to be more successful, you should make your strategy generation process more interactive. So, instead of relying on 'hard' paper-based information, you might want to see the people around you as your main sources of information. They have worked for the organization for a while and maybe even much longer in the industry, so you can assume that they actually know quite a lot about it.

Making strategy generation interactive has two main advantages. First, by including a variety of people from inside and outside the organization you get more variety and perspectives. More variety alone increases the chance of a good idea that really takes you beyond the status quo. Second, including them also makes it much more likely that they will be committed to the strategy being generated. This promotes successful execution.

It is important to include people from within your organization (managers, staff, or other employees) and from outside (particularly customers and suppliers). After all, you need them to turn your strategy into practice, so why not include them early on? It can also help to deliberately include people that are critical, or of which you know they might have a very deviating view. Again, this increases variety and thereby the chance that you come up with unique and new ideas.

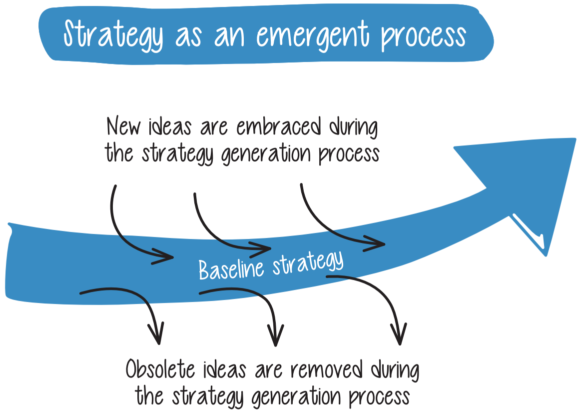
Strategy generation is emergent

Strategy generation is also an emergent process. This means that it doesn't follow a strict linear step-by-step logic and that it usually leads you to a different place than you originally anticipated. So, although you might plan to go from A to B in a more or less straight line following the plan, the reality is that you might end up at place E because B doesn't exist, C didn't work out, or you stumbled unexpectedly at D. Since E could be a much better place than B (which in this case it certainly is because B doesn't exist), it is generally a good idea to embrace unexpected twists rather than systematically avoiding them.

Another way in which strategy generation is emergent is that it requires some trial and error. This doesn't mean you should just blindly try something new and see what happens. It means that rather than only trying to predict upfront what will happen or what customers will need, you should also test your ideas in practice and learn from that. Based on what you learn you will then redirect and adjust your initial strategy.

"Strategy generation is as much about making adjustments and letting things go than about starting something new."

The fact that strategy generation is emergent also means that it is an ongoing process. Both strategy generation and strategy execution run the entire lifetime of an organization. This means that whatever new strategy you develop, there is usually a large part of the organization and the strategy that doesn't change and that follows a path that was set out before. This is important, as it means that strategy generation is as much about making adjustments and letting things go than about starting something new. This is depicted in the following picture, which shows how strategy changes as a result of new ideas coming in and old ideas leaving:



The five steps of strategy generation

Having seen some of the key characteristics of strategy generation, we can now move on to have a more detailed look at the steps it is made up of. From the literature and interactions with entrepreneurs, managers, and executives, I have extracted five key steps that cover the entire strategy generation process. As you can infer from the table of contents, these five steps form the core of this book. I briefly summarize them below.

Step 1 **Activating key stakeholders.** ***Making key persons in the organization receptive to new strategy and mobilizing the resources needed for strategy generation.***

At this first step, you make your organization ready for new strategy so that the strategy generation process is not doomed to fail before it actually starts. An important reason for strategic failure is that organizations don't pay sufficient attention to strategy. They are so invested in strategy execution that they fail to engage in strategy generation on time or with sufficient drive and ambition. In this case, strategy generation needs to start with making the organization strategically active and getting it from strategy execution mode into a strategy generation mode. Obviously, if your 'organization' is just you, or if people are already convinced, you can skip this step. In all other cases, though, it is crucial.

Step 2 **Mapping strategy.** ***Identifying the organization's strategy by describing it on the basis of its ten core elements.***

At this step you develop an understanding of the organization's strategy by mapping it onto all ten elements of the Strategy Sketch. This is not so much about mapping the formal strategy that has been written down, but about mapping the actual and more detailed strategy as it is experienced by the organization. This step is not only important for existing organizations, but also for startups. Even there, for instance, there can be particular resources and competences or ideas about customers and competitors that can be taken as a starting point. This step is pertinently not meant to restrict strategy generation to what is already there or to small incremental changes.

However, without a proper understanding of the organization's actual strategy, it is quite hard to really innovate or improve it.

Step 3 Assessing strategy. *Judging and testing the quality of the organization's strategy against relevant criteria.*

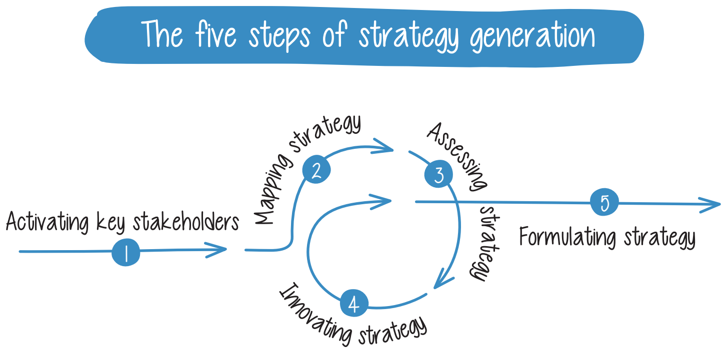
At this third step, you assess your strategy in order to diagnose its quality and to identify its strengths and weaknesses. So, at this step you judge and test how good your strategy is and where it can or should be improved. This step serves two roles. First, it can be an assessment of your current strategy. As such, this step is a good starting point for revealing how your strategy could be improved at the next step. Second, it can also be an assessment of your newly generated strategy. As such, it serves as a judgment of the quality of the new strategy and its chances for success.

Step 4 Innovating strategy. *Renewing and redesigning the organization's strategy through incremental or radical innovation.*

At this fourth step you start the actual generation of new strategy. Based on the existing strategy, explicitly deviating from it, or starting from scratch, this step focuses on generating new, innovative ideas for your strategy. As such, it is probably the most creative step of the strategy generation process. Next to developing new ideas, this step also explicitly looks at what parts of your existing strategy should be kept and what parts should be left behind.

Step 5 Formulating strategy. *Capturing the organization's strategy in words and pictures that can be understood by the target audience.*

At this last step you turn your strategy into a form that can be communicated to others. This is an essential step, as a strategy can only be really effective if it can be formulated in a clear and comprehensible manner. This last step forms a temporary closure of the strategy generation process. As explained above, strategy generation and execution are ongoing processes that are inextricably linked. However, at some point in time, you need to stop generating new ideas and focus on their execution. As such, this fifth step brings the attention back to where Step 1 drew it away: Strategy execution.



The right mindset: How strategy experts think

With the content of this chapter so far you are well prepared to start the strategy generation process that you will find in the rest of the book. There is one more thing that I'd like to add, though. Next to all the ideas, tools, and examples that you will find in the remainder of the book, it helps quite a lot if you start with the right mindset. And where can we find this better than in what some of the most iconic CEOs and entrepreneurs say about their approach to strategy? After all, they have been quite successful. Therefore, I have gathered some inspirational quotes from Steve Jobs, Richard Branson, Larry Page, and Howard Schultz that show their mindset in doing business.

Steve Jobs (co-founder and former CEO of Apple)

Probably the most quoted businessman and a great source of inspiration for many people, Steve Jobs became infamous for his way of running Apple. In relation to strategy generation, I find the following quotes particularly inspiring because of the strong emphasis they put on trusting your intuition and creativity.

> *"You can't connect the dots looking forward; you can only connect them looking backwards. So you have to trust that the dots will somehow connect in your future. You have to trust in something – your gut, destiny, life, karma, whatever. This approach has never let me down, and it has made all the difference in my life."*

"Don't let the noise of other's opinions drown out your own inner voice. And most important, have the courage to follow your heart and intuition. They somehow already know what you truly want to become. Everything else is secondary."

"Creativity is just connecting things. When you ask creative people how they did something, they feel a little guilty because they didn't really do it, they just saw something. It seemed obvious to them after a while. That's because they were able to connect experiences they've had and synthesize new things."

Richard Branson (founder and CEO of Virgin Group)

Another iconic businessman and entrepreneur, Richard Branson is a well-known role model for many ambitious entrepreneurs. Like Steve Jobs, he emphasizes the importance of trusting in yourself and your ideas. As the following quotes illustrate, he is also a strong proponent of a learning-by-doing approach to strategy generation and business more generally.

"You don't learn to walk by following rules. You learn by doing, and by falling over."

"Do not be embarrassed by your failures, learn from them and start again."

"A business has to be involving, it has to be fun, and it has to exercise your creative instincts."

"I never get the accountants in before I start up a business. It's done on gut feeling, especially if I can see that they are taking the mickey out of the consumer."

"To me, business isn't about wearing suits or pleasing stockholders. It's about being true to yourself, your ideas and focusing on the essentials."

Larry Page (co-founder and CEO of Google)

Both fervently celebrated and criticized, Google is amongst the most successful and influential companies today. Less visible than Steve Jobs and Richard Branson, its CEO Larry Page, has also said interesting things. I particularly like his emphasis on change and the idea that it can be done collaboratively with limited resources.

> *"Many leaders of big organizations, I think, don't believe that change is possible. But if you look at history, things do change, and if your business is static, you're likely to have issues."*

> *"If you can run the company a bit more collaboratively, you get a better result, because you have more bandwidth and checking and balancing going on."*

> *"You don't need to have a 100-person company to develop that idea."*

Howard Schultz (CEO of Starbucks)

Probably the least well-known CEO in this group of four, Howard Schultz is another great source of inspiration if we look at his views on strategy and business. What I particularly like about the following quotes is his emphasis on dreams and ambitions, and on taking responsibility for realizing them.

> *"In life, you can blame a lot of people and you can wallow in self-pity, or you can pick yourself up and say, 'Listen, I have to be responsible for myself.'"*

> *"I believe life is a series of near misses. A lot of what we ascribe to luck is not luck at all. It's seizing the day and accepting responsibility for your future. It's seeing what other people don't see. And pursuing that vision."*

> *"Any business today that embraces the status quo as an operating principle is going to be on a death march."*

> *"This may sound a bit naive, but I got here by believing in big dreams."*

> *"I despise research. I think it's a crutch."*

> *"Great opportunities can be and have been created during tough economic times."*

Are these quotes representative of how successful organizations are run? Probably not. I have been selective about the people I quote and what quotes I've included here to make my point. But my goal was not to give an objective summary of what the average CEO thinks about strategy. No, my goal is to show the mindset of some of the most iconic CEOs so that we can learn from them. I hope these examples inspire you to start the strategy generation process with a similar mindset. If they have built their companies based on intuition, creativity, collaboration, learning, and taking responsibility, why wouldn't the same work for you?

Introducing the four examples

Throughout the following chapters I turn to four example organizations to illustrate all the elements and steps of strategy generation. In order to anonymize them, all four are based on a mix of real organizations plus a bit of fantasy. Thus, although based on real organizations, the examples are strictly fictional. Together, they cover a broad variety of organizations: Large and small, young and old, product-based and service-based, and for-profit and non-profit. In this way, there should always be one or two that you can relate to.

I've chosen four fairly 'normal' organizations as examples. It might well be inspirational to use exceptional examples such as Apple, Virgin, Google, or Starbucks, and we can learn from the mindsets of their CEOs. However, 'normal' examples that are closer to the everyday practice of most organizations are easier to translate into your own situation and as such are more helpful. Therefore, the following four organizations will be our companions for the rest of the book:

Macman – the solid machine manufacturer

Size: 223 people **Turnover:** € 26 million **Age:** 52 years

Main product:	Steel processing machines (2 large customers)
Led by:	Director Ivo and a management team of 4
Strategic challenge:	What could be our next big idea? Macman has done well with its current line of steel bending and cutting machines. The market is shrinking though, and the company needs an alternative core product to rely on.

Hospicare – the businesslike general hospital

Size: 4412 people | **Turnover:** € 358 million | **Age:** 31 years

Led by: A 4-person board of directors with Ingrid as chairman
Main product: General healthcare (1109 beds)
Strategic challenge: How to compete in a changing market? Hospicare has long provided general healthcare, just like other general hospitals. Changes in regulations and increasing competition though, ask for specialization and choices.

GoforIT – the fast growing IT new venture

Size: 21 people | **Turnover:** € 2.3 million | **Age:** 4 years

Led by: Frank (commercial) and Liu (technology)
Main product: Online financial software and apps
Strategic challenge: How to grow in a sustainable manner? GoforIT has so far mainly relied on enthusiasm and creativity. Things are going very well now but to grow further they need more structure in everything they do.

Comcom – the freelance communication advisor

Size: 1 person | **Turnover:** € 50 thousand | **Age:** 13 years

Led by: Anisha
Main product: Communication plans, PR, and text writing
Strategic challenge: How to grow and at the same time enjoy work more? Anisha wants to remain on her own and faces two strategic challenges: How to distinguish herself from others and how to increase revenue and impact without simply working more.

3 Activating key stakeholders

This chapter presents the first step of the strategy generation process: Activating key stakeholders. It explains what this step entails and why it is needed. It also presents five activation tactics that you can use to successfully perform it.

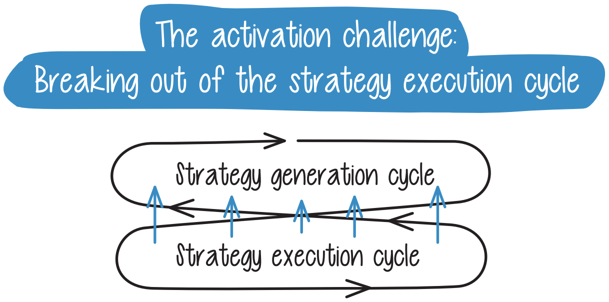
> Activating key stakeholders:
> Making key persons in the organization receptive to new strategy and mobilizing the resources needed for strategy generation.

The activation challenge

The first step of the strategy generation process is activating key stakeholders in the organization. Key stakeholders are those persons in the organization that have a big say in whether a new strategy will be adopted or not, and whether the organization will engage in strategy generation in the first place. You can think of the owners, the CEO, the (rest of the) board, the management team, or anyone else who makes key decisions for the organization or has an influential role throughout the strategy generation process. At this step you try to convince these people to remain open-minded and motivated during a process of new strategy generation. As such, this step helps you make them receptive to new strategy and mobilize the resources needed for strategy generation.

In most organizations this step is necessary initially because the development of new strategy happens far from automatically. There is often a tendency not to pay sufficient attention to strategy generation, or to start too late. If in your organization the key stakeholders are already convinced (or if you're just on your own), you could probably skip this step. In all other cases though, it is essential as a start of the strategy generation process.

What you are trying to do at this step is to turn an organization that is strategically inactive and primarily concerned with strategy execution into one that is strategically active and also engaged in strategy generation. In other words, it helps break out of the strategy execution cycle into a strategy generation cycle.



The strategy execution cycle is characterized by a focus on the short term and by being primarily concerned with running the organization and performing its day-to-day activities. It also includes efforts to make these activities more efficient (or 'lean'), faultless (through quality management initiatives and continuous improvement), and cheaper (by cost-cutting, automation, standardization and so forth). All these activities are important for an organization since they enable it to perform and improve its primary activities.

"Make sure the organization starts thinking about new strategy on time and with sufficient drive and ambition."

However, there is a limit to what can be done in terms of efficiency, quality, and costs. At some point in time further improvement along this line can only be marginal or close to zero. It is often at that point that organizations start realizing they need to try something new and change their strategy. And often this is too late since there is no time or money left and there are no suitable people anymore to engage in a strategy generation process. Activation is needed to avoid these situations and to make sure that the organization starts thinking about new strategy on time and with sufficient drive and ambition.

Excuses and causes for strategic inactivity

To understand how you can activate your organization so that it starts engaging in strategy generation, it is useful to first get a sense of the reasons why organizations are strategically inactive. We can divide them into common but invalid excuses, and genuine but avoidable causes.

Common (but invalid) excuses for strategy inactivity

It is quite easy to find excuses to avoid engaging in strategy generation. Over the past years I've heard quite a number of them from CEOs, managers, and entrepreneurs that show how they resist. The following ten are my favorites:

1 **No time. Too busy with running the business.**
Invalid because this simply means setting the wrong priorities. Of course it is attractive to focus on the short term only, but if there's anything that research shows, it is that organizations that also give priority to strategic innovation perform better.

2 **No money. We have a crisis and must cut costs first.**
Invalid for the same reason. It just shows that the organization has set the wrong priorities in the past and is stuck in strategy execution now. Usually, the crisis itself is a result of this and, although attractive, it cannot be attributed to external forces. Of course times may be difficult, but at the end only the organization itself can do something about it, so blaming others is of no use.

3 **No use. We're at the mercy of what happens around us.**
Invalid because it victimizes the organization too much and underestimates its power and autonomy. Of course you depend on your environment. But you can influence it as well, even in

highly regulated industries such as health care. You always have some freedom in choosing your environment and in doing things differently from others.

4 **Not allowed. Headquarters or my boss doesn't allow us.**
Invalid because this victimizes the person saying it too much. Of course, some organizations provide little room for creativity and strategic thinking through strict rules and regulations. However, usually this excuse exaggerates the strictness of the rules and regulations. We can assume that they were set for the benefit of the organization. But if breaking them helps more, there is a good chance you will get more room. So, why not show some civil – or organizational – disobedience and bend the rules in a way that you think is beneficial for the organization?

5 **No need. We are doing fine without strategy.**
Invalid because it isn't true. Every organization has a strategy. Whether you are aware of it, though, is another question. The organization's strategy might not have been written down, but if you look at what the organization does today and what kind of decisions were made in the past, you can extract what its factual strategy is. This is why the next step (mapping strategy) is so important, as it gives you insight into the current, actual strategy of the organization.

6 **Too small. Strategy is for big firms, not for us.**
Invalid because it is nonsense. Strategy is for every organization, including one-person businesses. It is true that most strategy models and theories have been developed with large firms in mind. This, though, does not mean strategy is not relevant for small organizations. It doesn't even mean these models are not applicable; the large majority is.

7 **Not applicable. We are a non-profit organization.**
Invalid for a similar reason. The mere fact as to whether an organization is profit-oriented or not doesn't say anything about the relevance of strategy. In order to be successful, non-profits must also earn money and think about all ten elements of the Strategy Sketch. Only if there is no competition at all and customers are forced to buy your products and services is your organization in a position where strategy is not relevant. These cases are quite rare though.

8 **Done that. We tried it, but it didn't work.**
Invalid because it says more about the strategy generation capabilities of the organization than about the importance or applicability of strategy generation. It also signals a lack of perseverance. Okay, things might not have worked out well the first time, but failure is unavoidable, and rather than giving up it should be taken as a learning experience.

9 **Too abstract. Strategy is too much blah blah.**
Invalid because it only says something about how strategy is perceived, not about what strategy is actually about. I really understand this excuse, for strategy is often made bigger than it is and many strategy tools and approaches are rather abstract. However, this should not distract you from the fact that strategy is essential. I hope to show in this book that it can be very practical and concrete too.

10 **No benefit. We don't need extensive plans.**
Invalid because this only concerns a particular way of dealing with strategy, not strategy in general. I certainly agree that extensive plans are mostly not very useful, but this doesn't mean strategy itself is not useful. It just means that we need to find an effective way of strategy generation that doesn't rely on extensive plans.

Most of these excuses are either reasons not to engage in bad strategy generation or faulty reasons at all. As I hope to have shown though, they are not reasons not to engage in good strategy generation.

> "Both the excuses for strategic inactivity and its causes can be overcome."

Genuine (but avoidable) causes of strategic inactivity

That we find so many excuses for not engaging in strategy generation is not so surprising. There are strong forces at play that are in favor of keeping things as they are. Generally, people and organizations have a tendency to go 'back to normal' and stay there as long as possible. Like an object that you throw in one direction, people and organizations tend to stay on the course they are on as long as there are no active impulses to change that course. In strategy there are many organizational and psychological factors that cause this tendency. Key organizational ones include:

- **Path dependence.** Past strategies have led to the organization's current processes, technology, culture, and so forth. These cannot be easily changed.
- **Success trap.** Once things go well, there seems no reason to change it. Success even fosters investing more in what the organization already does.
- **Performance delay.** Today's performance is a result of yesterday's strategy. Signals that things may go worse come with a delay.

While these organizational causes of strategic inactivity may be quite strong, they can be overcome with a reasonable dose of common sense. Just being aware of them might already be sufficient because you can then take them into account. Psychological causes of inactivity, though, are harder to deal with, as they relate directly to the way people think. Rationally, the odds are quite obvious: Strategy generation is key to every organization's long-term health. So, if we were all rational, organizations would do much more about strategy generation and this step would not be necessary. However, as decades of research in cognitive psychology shows, we have all kind of non-rational biases that influence our decisions – and that means strategy generation often does not get the attention it deserves. Some of the important psychological causes of inactivity are:

- **Uncertainty avoidance.** People generally have a fear of the unknown. Since new strategy causes uncertainty, people naturally prefer to keep things as they are.
- **Confirmation bias.** People generally see what they like to see. Therefore they might be overoptimistic about the success and potential of the organization's current strategy.
- **Personal loss.** People have obtained particular positions that they like to keep. New strategy might harm those positions. Therefore, people may resist if they lose more than they gain.
- **Hubris and losing face.** Admitting that new strategy is needed may feel like admitting you were wrong - especially if you're late in initiating new strategy.
- **Conformation.** People generally like to do what others do – within the organization or in the industry. If this is the way things are apparently done, why change?

- **Escalation of commitment.** People like to be consistent. Once on a particular track, they are inclined to keep on investing in it – despite evidence that change is better.

Together, these organizational and psychological causes of inactivity make strategy generation a rather unlikely phenomenon to happen automatically in the average organization. But the good news is that there are several things you can do to overcome this. On the following pages you find five activation tactics that you can use for this.

Activation tactic	What it does
1. Open people's minds	Making new strategy *imaginable*
2. Reveal the urgency	Making new strategy *unavoidable*
3. Sell the benefits	Making new strategy *advantageous*
4. Take away risks	Making new strategy *feasible*
5. Just start	Making new strategy *happen*

Activation tactic 1: Open people's minds

The first activation tactic is making strategy *imaginable* by opening people's minds. The aim of this tactic is to take away the main barriers of imagination by challenging people's taken-for-granted ideas and assumptions. What you are trying to do with this tactic is to create awareness that things could be different from what they are. This is especially relevant if people have worked for a long time in one industry, for one organization, or in one function. There are several ways to do this.

A Ask why the organization does what it does

You want to show people that it is not self-evident or even logical that the organization does what it does. One way is looking back at the past and ask *why* things are done the way they are done. Quite often, there are no rational reasons why a particular strategy is followed

"Take away the main barriers of imagination by challenging people's taken-for-granted ideas and assumptions."

or why the organization is organized as it is. Instead, this may be a result of certain people working for the organization that left long ago (such as a previous director), or of certain technologies that were used. If you can make people realize that things are largely a result of circumstantial factors, this may help them to realize that things could easily have been different.

B Show what has changed around you

Another useful tactic to open people's minds is to have them look at changes in the industry or in the broader society. Just look back ten years (or five) and look, for example, how new technologies (especially IT and mobile) have influenced the kind of products and services offered and the way of doing business today. You can show them these changes, but it is more powerful if they reveal the changes themselves. A simple exercise can be to ask them the five most important changes in the industry over the past ten years and have them rate the likelihood that similar kinds of changes will happen in the next ten years.

C Let them draft a new organization

Often people find it very hard to look beyond the current organization. When you try to get them involved in strategy generation, they might tell you that nothing is possible, because the organization (structure, culture, size, …) simply is at it is. One way to trigger their imagination is asking them what the organization and strategy should look like if they could start completely from scratch with a new organization (including a new legal entity) next to the existing one. Once they start thinking about that, there is a good chance that they will become enthusiastic and start realizing that what they are sketching could also work with the current organization – or that it is actually possible to start a completely new legal entity.

D Give examples of organizations that have changed radically

A fourth way to make new strategy imaginable is giving examples of organizations or industries that have gone through rather dramatic changes. The most powerful examples are those that the people in your organization can easily relate to. Therefore, it is preferable that you seek examples of organizations within your own industry, or of industries close to your own. If you can't come up with these examples, you can also use examples of well-known organizations that redefined their strategies. Some inspirational ones are:

1. **Nokia:** From paper mill to phone manufacturer.
2. **LEGO:** From relying on a patent to relying on user interaction.
3. **Xerox:** From photographic paper to copiers and printers.
4. **Philips:** From consumer electronics to health care.
5. **3M:** From mining and sand paper to tape and post-it notes.
6. **McDonalds:** From fast and fat to fast and healthy(ier)

If you don't know these examples well enough, just search them on the Internet. Wikipedia in particular is quite useful for this as it often gives a detailed account of the history of organizations.

Activation tactic 2: Reveal the urgency

A second tactic for activating strategy generation is showing that new strategy is *unavoidable*. This includes creating the well-known 'sense of urgency' that is emphasized in change management approaches. The core of this tactic is signaling the problems associated with giving too limited attention to strategy generation before they turn into real problems. The following five tactics can be used for this.

A Ask whether the organization will still exist in five years

A simple tactic to reveal the need for new strategy is asking your key stakeholders whether the organization will still exist in five years if it just continues doing what it does today. This makes them think about ongoing developments in the organization's surroundings and whether the current strategy is appropriate for that. If their answer is no, you probably have them on board. Otherwise, you can continue with the next tactic.

B Reveal internal signs of a need for new strategy

Another way to show that strategy generation is needed is letting people face facts. You want to show them signs indicating that the organization's strategy is reaching its expiration date or signs that reveal a lack of attention to strategy. These are ten key internal signs:

1. Over 80 % of revenue comes from existing products.
2. There is a strong dependence on a few large customers.
3. No significant new customers were attracted over the past year.
4. No significant new products/services were sold over the past year.
5. There is an increasing focus on cost-reduction and efficiency.
6. Margins and prices are decreasing or too low.
7. There is a defensive attitude towards the current business.
8. No significant changes in staff happened over the past year.
9. There is no strategy process or systematic attention to strategy.
10. The economy or others are blamed for bad results.

If you recognize three or more of these signs in your organization, this signals strategy requires more attention.

C Reveal external signs of a need for new strategy

Also in the organization's environment there are signs indicating a need for new strategy. Ten important ones that you can use to convince key stakeholders to engage in new strategy generation are:

1. The demand for the kind of products you offer is shrinking.
2. The number of jobs in the industry is decreasing.
3. An increasing standardization of products/services is taking place.
4. Price competition is increasing or is already fierce.
5. Old competitors exit, are taken over, or go bankrupt.
6. New competitors come and do things differently.
7. New technologies enter the industry.
8. Industry boundaries are increasingly blurred.
9. Predictions are unreliable due to growing uncertainty.
10. The media are questioning the industry's viability.

The larger the number of signs you recognize here, the more urgently a new strategy is needed.

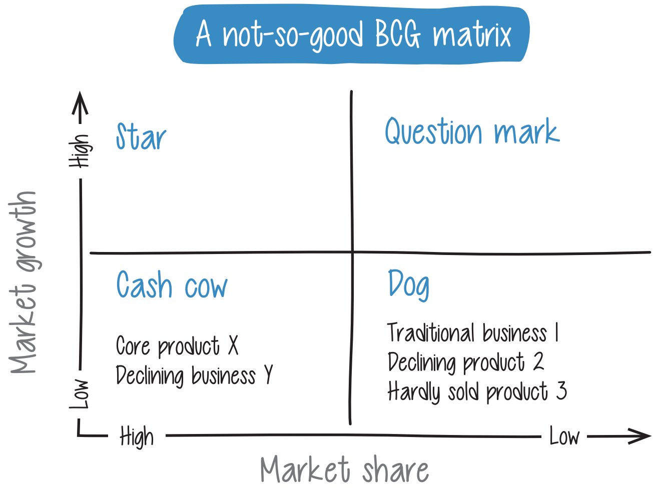
"Signal the problems associated with too limited attention to strategy generation before they turn into real problems."

D Fill out a BCG matrix

Another effective way to show the need for new strategy is filling out a BCG matrix. This is a two-by-two matrix developed by the Boston Consulting Group in which you categorize your products and services along two dimensions: market share and growth rate of the market. Based on these two dimensions, you get the following four categories:

- **Question marks** (low market share, high growth): new products or services for which it is unclear whether they will fly or not.
- **Stars** (high share, high growth): still new, but already and increasingly successful products or services.
- **Cash cows** (high share, low growth): usually the products/services on which the organization relies most. Mature and stable.
- **Dogs** (low share, low growth). Products and services that are on their return. Markets are shrinking and becoming less attractive.

You don't need to do extensive research for this. Just divide your products and services into the four categories based on your best knowledge. If the first two categories are relatively empty compared to the latter two, this is a clear signal that the organization's strategy requires renewal.



E Give examples

Examples work here too, especially of industries or companies that died or failed otherwise because of insufficient changes to their strategy. Like with the first activation tactic, examples close to your own organization are the most powerful. Otherwise, consider the following ones:

- **Record industry:** Redefined through digital music.
- **Newspaper and printing industry:** Having problems due to online content.
- **Kodak:** Failed to switch to digital photography.
- **Nokia:** No timely switch to smartphones.

Like with the examples mentioned earlier, you could just search the Internet for more information or consult Wikipedia. Also helpful are lists of declining industries or of jobs that will disappear in the not-so-distant future, mostly because of computerization. Search, for example, 'declining industries' or 'disappearing jobs' for inspiration or look for a study called 'The Future of Employment' conducted by the University of Oxford.

Activation tactic 3: Sell the benefits

The next tactic to get the strategy generation process going is to show skeptics that new strategy is *advantageous* for the organization or for them personally. Whereas the previous tactic emphasized the perils of not engaging in strategy generation, this tactic emphasizes the possible gains of doing so.

A Emphasize organizational gains

The first thing you can do is to stress the organizational benefits of being engaged in new strategy generation. These include the following ten:

1. It motivates people and gives the organization new energy.
2. It avoids always focusing on costs and inefficiencies.
3. It leads to a more productive usage of the organization's potential.
4. It helps finding new or better sources of income.
5. It creates opportunities to make happier customers.
6. It helps to do things better and differently than your competitors.
7. It creates oversight and insight into the organization.
8. It fosters coherence and alignment of what the organization does.

9. It provides a good reason to get rid of unwanted things.
10. At some point you'll have to do it anyway, so why not now?

You probably have quite a good idea who will be sensitive to what arguments. So, instead of simply listing all these advantages it is better to emphasize those that will appeal most to your audience.

B Emphasize personal gains

If showing organizational benefits is not enough, you can also stress the personal gains of new strategy generation. Obviously what these gains are precisely depends on the particular position and personality of your skeptic. So, here it would also be best if you know who is sensitive to what arguments. Generally, though, you can think of the following:

1. It provides an opportunity to realize personal ideas or ambitions.
2. It offers a possibility for getting rid of things they don't like.
3. It gives them influence on the organization's direction.
4. It helps safeguard or improve their position in the organization.
5. It provides an opportunity for showing what they are capable of.
6. It encourages learning new skills and gathering new experiences.
7. It gives a sense of pride if they are successful.
8. It makes it more likely that they can hire people rather than fire them.
9. It is fun - certainly more fun than cost cutting.
10. At some point they'll have to do it anyway, so why not now?

> "Show skeptics that new strategy is advantageous for the organization and for them personally."

C Ask for people's dreams and ambitions

You could also turn it around. Rather than selling the organizational and individual benefits above, you can also ask people what they would like to achieve. They might have ideas, dreams or ambitions that they would like to realize for the organization or personally. These may be hidden, because people have already concluded it would be impossible to realize them and have given up. However, if you insist and ask what they would really like to achieve if everything were possible and if they had all the resources they needed, I bet you would get some interesting answers. Then, your next question to them is when would it be more likely that they can realize their ambitions. Is this when the organization continues as it does, or when it starts working on a new strategy? Assuming their answer is the latter, you have sold them the benefits of engaging in new strategy generation.

D Give examples

For this third tactic giving examples also works well. It also works best here if these are examples that people can easily relate to. For illustrating the organizational gains of strategy generation you should ideally use examples of organizations that are similar to yours and that have successfully changed their strategy. For illustrating the personal gains it helps to give examples of people that have personally gained from new strategy and that hold similar positions than the ones you are trying to convince. For both types of examples you can think of:

- A good competitor that has renewed its strategy.
- A customer or supplier which has reinvented itself.
- A similar-sized organization in another industry.
- An old organization that was unlikely to change but did.

If you can't find any good examples, you could also think of the usual suspects: Organizations and people that have been very successful as a result of constant improvement and innovation of their strategies and that are often used as examples. This includes Apple, Virgin, Google, Starbucks, and their leaders (see the quotes at the end of Chapter 2), or any other organization that has followed a successful strategy – Ikea, Coca Cola, Ryanair, 3M, Samsung, BMW, and so on.

Activation tactic 4: Take away risks

A fourth activation tactic is making new strategy *feasible* for the organization and for your key stakeholders. After the previous tactics everyone might be convinced that new strategy needs to be generated. However, if major hurdles are seen, it still doesn't happen. The purpose of this fourth tactic is to take these hurdles away by reducing the risk of failure.

A Limit organizational risks

For limiting the organizational risks associated with new strategy generation we can draw from a variety of tactics used in entrepreneurship. Since there will always be some failure, the core idea is to do it quickly and cheaply. To achieve this you could do one or more of the following:

- Invest time, resources, and money based on what you can afford to lose without harming the organization. In this way you decide upfront what your maximum investment will be and thereby control your risks.
- Isolate the actions and resources that are needed for the new strategy from the rest of the organization. This makes sure that the strategy generation process doesn't disturb the ongoing business.
- Install a step-by-step strategy process that requires a go/no-go decision before each step. This ensures that you can stop the process at any time before big investments are made.
- Postpone the 'point of no return' as far as possible. First focus on everything that can still be undone. This keeps you flexible and makes that you avoid agreeing on commitments that you later regret.
- When going live, start with a real-life pilot with customers that tells you whether the strategy works in practice. This makes sure that, if you fail, you fail cheaply and quickly.
- Share risks with customers, partners, or suppliers by involving them early on in the process. Make their success dependent on your success. This creates commitment and aligns interests.
- Sell before you actually make something. Try getting commitments before you make significant investments. This makes you depend less on sales estimates since you are already certain of some sales.

"Since there will always be some failure, the core idea is to do it quickly and cheaply."

B Limit personal risks

To convince people to engage in strategy generation, you also want to limit their personal risks. They might have a lot to lose from a new strategy – or at least they may think so. The following tactics help to limit this:

- Do all of the above to limit organizational risks. If the organizational risks are lower, people's personal risks are reduced as well, especially since your key stakeholders are usually the ones that are held accountable.
- Ask about their concerns and how these concerns could be taken away. Thus, instead of doing it yourself, let them provide the solutions. This tactic works well in sales, and it works equally well in strategy.
- Take responsibility. Make sure that you are to blame and not them if the new strategy fails. Of course this implies some risk on your side, but if you are convinced of the need for new strategy, why not take it?
- Share responsibility. Make sure that everyone is to blame if the new strategy fails. If strategy generation is a collaborative process in which many people are involved, the risks are shared as well.

C Get the affordable loss on the table

An important reason why organizations are not sufficiently strategically active is that people fear losing time, money, or face due to an unsuccessful new strategy. Arguing against this or trying to reassure them doesn't really work because why would you know better than them? You probably don't. And even if you know better, this still doesn't take away their uncertainty. What does work, though, is helping them specify their affordable loss – this is what people are willing to lose if things don't work out. Setting their affordable loss gives them control over the worst thing that could happen, and by giving control you reduce the uncertainty. So, what you want to do is ask people what time, money, or other resources they would be willing to invest in the generation of new strategy even if here is a substantial chance that they would lose it. This provides you with some sort of budget that can be used for strategy generation.

When you try to arrange this, you might need to help people a bit. They might think too easily just about money while forgetting other valuable resources that they are sitting on and actually would be willing to spend. Therefore to get as much as you can, it is handy to keep the checklist below with you, or in the back of your mind.

Checklist of resources that people could invest in strategy generation

Time & power-related resources such as:	Financial & material resources such as:	Intellectual & social resources such as:
Time	Money	Information
People	Machine-hours	Advice
Man-hours	Space	Judgments
Freedom	Materials	Ideas
Authority	Capacity	Contacts
Support	Tools	Energy

D

Give examples

Examples work here too, particularly if people can relate to them. In this case you want to give examples of unlikely successes or of organizations or people that started with little and managed to grow it into a successful strategy without running major risks. If you don't have examples that are close to your organization, you can consider using the following ones:

- **eBay.** Pierre Omidyar started eBay in 1995 as a hobby project next to his fulltime job. He argues that precisely because time and money were limited, eBay has become so successful because it led to a simple product and organization without unnecessary features and staff.
- **Amazon.** Jeff Bezos started Amazon in 1994 with an investment by his parents and – how clichéd – in his own garage. Although he told his parents that there would be a 70% chance they would lose their money, they invested anyway.
- **Chipotle Mexican Grill.** Steve Ells started Chipotle in 1993 with the idea that it would be a cash cow from which he could later start a more fancy restaurant. It started very low profile with just burritos and tacos, and was put together very simply with plywood. The relatively small amount of money needed came from Ells's dad.

> "Do something that clearly deviates from the current strategy or that exemplifies the new strategic direction."

Activation tactic 5: Just start

A last activation tactic is to simply start making new strategy *happen*. Instead of trying to convince people and waiting until they get moving, you can also be entrepreneurial and just start. Sometimes this is the best and easiest way to get the strategy generation process going. In this way you basically first skip the whole strategy generation process and immediately jump to execution – on a small scale. Once people see that your actions work out, you've set an example that might convince them to engage in strategy generation.

You want to do something that clearly deviates from the current strategy or that exemplifies the new strategic direction that you have in mind. It is also quite powerful if you can do something that your key stakeholders consider infeasible or too risky. If you cannot come up with something yourself, you might want to consider doing some of the following:

- **Get a quick win.** There might be low-hanging fruit that reflects the strategic direction you are anticipating, that is easy to realize, and that immediately has a positive impact. By taking these actions, you show that change is possible and that there are benefits to the new strategy
- **Get a new customer.** If the new strategy implies entering or creating a new market it may be fairly convincing if you can tell people you already have a first (potential) customer.
- **Find a new source of income.** One way to renew your strategy is to innovate the revenue model by finding new sources of income. So, what you can do is just trying to arrange this on a small scale. If, for example, your current revenue model is based on hourly rates for a service, you could just try and sell the same service for a fixed price. If this works, you have some evidence that change is possible.

- **Break a rule.** There might be some rules, habits, or structures in the organization that impede progress and cause new strategy not to get off the ground. To break out of this stalemate, you can do something that intentionally deviates from the norm. You can, for example, start working from home one day a week if that is uncommon and if it might support the new strategy that you have in mind.
- **Find an ally.** Instead of trying to convince key decision-makers you can also try to find someone in the organization that sympathizes with your ideas and who is also ready to act. By acting together, you can make more impact. And if he or she does the same, your impact might gradually spread throughout the organization.
- **Fail quickly and cheaply.** If the organization is risk-avoiding or if there is some fear of failure, you might want to deliberately fail. If you do this in such a way that the consequences are minor, this can show others in the organization that failure isn't as bad as they thought. This can be a bit risky, though, since your failure might also make people even less willing to engage in strategy generation.

The four examples

Strategy activation at Macman

It was evident to director Ivo and his management team that new strategy was unavoidable and advantageous. They were well aware change was needed. The main bottlenecks to actually starting were that they didn't really see how and just saw problems ahead. This meant their strategy needed to be made imaginable and feasible.

- **Making new strategy imaginable.** Macman's leadership was stuck in the mindset of "we are a machine manufacturer." What helped was looking back at their history – they were a producer of semi-finished steel products before they actually started making their own machines. Realizing this opened up their minds a bit. What worked even better was asking them numerous times "why?" and "why not?" until they realized that their minds were mainly shaped by assumptions than by unbreakable truths.
- **Making new strategy feasible.** They assumed new strategy meant hiring expensive consultants, spending a lot of time on analyzing, and writing extensive plans. They blew up strategy generation into something big. What helped was showing them that you can start small and work iteratively, relying in first instance mostly on the resources and competences the firm already had.

Strategy activation at Hospicare

At Hospicare the main bottlenecks were convincing the board of directors that new strategy was unavoidable and advantageous. Although chairman Ingrid – through her previous jobs in business – was convinced they needed to look beyond the 'normal' health care business, the other members were more traditional and optimistic about the current strategy. They argued that "things have gone well, go well, and will keep on going well the way we do it."

Given the hospital's fact-based mentality, Ingrid figured she needed to give them 'hard' evidence that change was needed. So she asked her staff department to compile a report with a) the performance of the hospital over the past 10 years in terms of margins, innovation, and revenue, and b) an overview of developments in the hospital's environment in terms of competitors and demand for care. This worked. As it turned out, things hadn't gone so well and weren't going well at all. This convinced the rest of the board that things certainly would not go well if they didn't change their strategy. Furthermore, Ingrid managed to show the personal benefits of strategic change. The board members were all quite proud and sensitive about their positions and achievements. She used this by reminding them how a successful change would be good for their careers.

Strategy activation at GoforIT

At GoforIT strategy activation was not needed. They clearly didn't lack imagination and saw plenty of opportunities to grow, expand, or even redefine the company. Also, feasibility was not an issue since they were convinced of their own abilities. They were also aware that they needed to do something given their fast growth over the past 3 years. There were increasing internal problems and a lack of structure and focus in their activities. So it was evident that actually having a strategy was unavoidable and advantageous.

Strategy activation at Comcom

For Anisha it was quite clear that she should change her strategy. Change was not so much unavoidable – she could go on like before for many years without any real problems – but she really wanted it because she saw a lot of advantages (more fun, more money, more time). Like Macman, her main bottlenecks were related to the imaginability and feasibility of new strategy. She had secretly imagined how to redefine her business (she dreamt of becoming a famous food blog writer), but could not see how she could do that. What worked well in her case was looking at inspirational examples of some well-known blog writers and journalists and just telling her to start now alongside her current job. The risks and costs of this were minor and if it didn't work out she could still rely on her current business.