

THE REALITY TEST

STILL RELYING ON STRATEGY?

ROBERT ROWLAND SMITH

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PREFACE

‘No strategy survives contact with the enemy.’ It’s a proverb I first heard while helping to run a discussion among the top brass of the Ministry of Defence, in London. Because it’s based on estimates, a strategy is essentially a work of fiction. It can’t stand up to the reality of war.

Business strategies are no less vulnerable than their military equivalents. Even strategies that are exemplars of analysis cannot account for all that will happen in the heat of business. Why? Because such strategies assume that business is as rational as themselves. Unfortunately, it’s a lot messier than that. What gets in the way of the strategy’s seamless execution is reality. That’s what this book is about.

The obvious solution, you would think, is to load the strategy with as much reality as possible. But how?

You have to get beyond the typical strategy questions. Questions such as ‘What is our revenue target?’ or ‘What is our market proposition?’. Being typical, they’re easily replicated by the ‘enemy’, the competition. The result is that most strategies are variations on a small number of themes: grow, divest, diversify, consolidate, focus. And so the market fills up with companies pursuing very similar goals. Yet since some companies falter where others flourish, it’s probably not those strategies that make the difference. They don’t provide enough of a variable. Macroeconomic factors aside, the real

reason businesses fail is that they run out of energy, or they don't believe in their product, or their leaders are too vain to heed advice, or they treat their customers like idiots, or they are sabotaged from within. Such are the realities that 'strategy' is too rational to account for.

The purpose of this book is to bring such realities into focus so that anyone leading a business will be equipped to deal with them. In order to make it easier for leaders to apply them to their own business I have explored these realities by answering a number of pointed questions. Three quick examples from the chapters ahead:

1. 'Did the past never happen?' I have seen too many organisations repeat mistakes because they don't take the time to learn lessons. Again, that's partly due to the obsession with strategy, which is all about the future; it's as if the past didn't exist. But because it actually happened, the past is more real than the future, which hasn't happened yet. It's a far more reliable source of information. I tell the story of a fashion house that keeps making the same errors because it only ever looks ahead.
2. 'Why isn't everything perfect?' Strategies often forget that organisations aren't perfectly honed delivery machines, but are made up of real people. I relate my experience of the organisation that tried to automate every possible process, only to realise that some decisions just couldn't be left to a machine. Only humans could compute the complex issues thrown up when what the strategy predicted fell foul of the reality that actually occurred.
3. 'What do you tell yourself?' As in real life, people in business sometimes believe things about themselves that

aren't true. In the case of one senior executive I coached, the gulf between his self-perception and the reality was vast. It was only as a result of being confronted with the reality that he could achieve the level of self-awareness necessary for him to change and for his colleagues to get behind him once more.

Real, pointed questions like these drive at the heart of what makes a business viable. They flush out the issues that most strategies do not. The issues can then be addressed and resolved. Conversely, if such questions aren't raised, the issues fester, and that can have disastrous consequences. Unasked is unarmed.

For example, I remember the law firm, now defunct, that every year vowed to shift from a model of 'premium services to premium clients for premium fees' to one of high-volume, low-margin transactional services for all and sundry. Their 'strategy' was to grow, and they didn't know how else to do this. Over the years, they edged towards the new model, but each time they edged a little further, one of the partners would leave. They might have wanted to grow, but they'd never posed the key question that growth implied: 'Do we want to change?' The answer would have been no – they liked their premium ways. Small wonder they died a slow death.

What I have done is pull together the most widely applicable of such questions from my experience of working as a consultant to boards and senior management teams (needless to say, I've disguised organisations and individuals to preserve confidentiality). The questions are designed to touch on the reality that strategy doesn't reach. As my background in philosophy taught me – in my twenties I was an Oxford don – asking one good question can shed more light than answering lots of bad ones.

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Each question has a short chapter attached. The chapters can be read in any order, but I have grouped them to narrow in from the macro to the micro. The first group asks about how your business stands in the grand scheme of things; the last one probes what it's really like to be a leader. And although all of them suggest practical ways of changing your approach, they can be read simply as food for thought. Business is about doing, but the best doing is based on the best thinking.

PART 1

**IN THE GRAND
SCHEME OF THINGS**

INTRODUCTION

As its title suggests, this first part looks at your business in the widest possible perspective, the point being that businesses exist not only in the market but also in the real world. They are much more than players in a game of business strategy. They provide jobs for people, they make an impression on their customers, they pay tax to governments, they must satisfy their shareholders, they give to or take from society, and they are remembered or forgotten when they disappear.

One of the things that defines a business leader, as opposed to a manager, is that he or she is uniquely positioned to take in this broader perspective and hold it in mind. Not all leaders do so, of course: many become immersed in day-to-day management and forget that not all of business is about business.

It's not just the pressures of the day-to-day that impinge. The preoccupation in business with strategy means that the question of what the business is going to do leaves little room for questions of equal importance – not just *how* the business is going to deliver what the strategy demands, but *who* the business is, the character it has, the role it plays in the community, and so on.

So what kind of a business do you, as a leader, wish to be identified with? A successful one, for sure, but success is ultimately measured on more than making money – the widespread distaste for banks being a case in point. Why, after all,

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do people choose to go into different businesses? Because over and above making money, they hope to pursue a particular purpose: to build fine buildings, to find the cure for a disease, to provide amazing food, to push the boundaries of their profession, to develop themselves personally, to carry on a tradition, to make a difference. If strategy is about achieving commercial ambitions, then these other ambitions, which go beyond the commercial, need a lens other than strategy through which to view them.

WHO ARE YOU?

One of my first assignments as a rookie consultant involved a high-street chemist, or drugstore. The funny thing was, you'd walk into a branch and not see any chemicals or drugs. Only if you zigzagged through the aisles to the back would you find a self-contained pharmacy. The pharmacy was stocked with arcane powders and staffed by apothecaries with faces as white as their coats, a breed apart from their made-up colleagues on the main floor. This floor featured everything from underwater cameras to umbrellas, sunglasses to sandwiches – even vibrators.

Custom was dwindling, and we naturally assumed it was because the offer in the stores was too confused. You couldn't tell if you were in an overgrown chemist or an under-grown supermarket. When we interviewed the high-ups about their market proposition, we met with an equally confused response. 'We're a pharmacy plus,' said one. 'We're a personal needs retailer,' said another. 'Feeling good or just feeling better – that's what we sell,' said an ingenious third.

The solution seemed obvious. They should slash the range of products and put the pharmacy at the centre. That would dispel the confusion in a trice, and customers would start flooding back. Yet as our interviews progressed, something else came to light. Despite the divergence of opinions, there was a common theme. It was to do with the company's history.

Having started as a small family business, the company won a place in the hearts of those who patronised it. Even though nationwide growth ensued, the company retained the provincial modesty that marked its beginnings. It managed to feel local in every location, and among its customers that translated into loyalty.

This insight steered us towards a sharper diagnosis. If once-loyal customers were now staying away, it wasn't because of the sprawl of products per se. After all, pure pharmacies themselves hold a dizzying array of stock – think of the pills, the phials, the potions, the unguents, the powders, the sprays, the drops, the capsules and the sachets. It was what the sprawl of non-pharmaceutical products implied. It implied the company just wanted to shift product, meaning that the relationship with the customer had become little more than transactional. Some of the spirit had gone.

The question we should have asked much sooner was not the one about market proposition, i.e. 'What's your core product?' That was too standard, too businessy, too 'strategic'. It led us to a generic answer about cutting back to the essentials. What we should have asked was: 'Who are you?' Had we asked that, we would have got to something more real more quickly. The answer would have been along the lines of 'We are the people who provide local and trustworthy expertise about your health. That expertise manifests itself as both advice from your pharmacist and a carefully chosen selection of products that we recommend for your general well-being.'

This answer tempered the initial instinct to lop off every limb of the business which wasn't the pharmacy. At the same time, it put limits on what kind of non-pharmaceutical products could be sold: suntan lotion, yes, because it protects against skin cancer; cameras and crisps, probably not. It was

as if the store were an extension of the GP on the high street, a benevolent presence to whom customers would feel ready to give their loyalty once more.

In this case, the question ‘Who are you?’ uncovered the identity of the business and the extent to which customers had subconsciously become invested in it. Messing with that identity by offering too many non-pharmaceutical, and specifically non-health-related, products was creating among customers something more serious than confusion. They felt disappointed, even betrayed. Bringing that identity back into view helped to restore faith.

Is the moral of the story that businesses should stick to their knitting? Were it so, it would put the kibosh on any innovation or diversification. Thankfully, it is not. The company would be able to sell a range of non-pharmaceutical products, just as long as they fitted inside the framework of the ‘GP on the high street’. This framework didn’t preclude growth or creativity, it just provided the guide-rails to grow or create within. Understanding who you are helps to identify that framework.

The moral therefore is ‘be yourself’. This is different from just doing what you’ve always done, because it does allow for growth. Most importantly, it’s about realising what’s unique about your business.

Too many businesses struggle to answer the question of who they are, because they can’t articulate what’s unique. Go, for example, to the website of pretty much any professional services firm – lawyers, accountants, financial advisers – and you’ll find they are mere variations on the theme of ‘providing solutions to client issues’. On the surface, many such businesses exist simply because there’s a general demand for professional services from customers and a general need for employment from graduates. But knowing who you are and