

# Strategic Management in Australia


## What Do We Do; What Should We Do?

### Survey Results

HC+P: Strategic Leadership Institute

### 1. Introduction: Do ‘Traditional’ Approaches to Strategy Work?

The theory of strategic management first rose to prominence in the early 1960’s (e.g. Ansoff “Corporate Strategy”, 1965). At that time, ‘Baby Boomer’ families were hitting their straps and growth (to a large extent) could be readily correlated with increases in population as well as an increase in the ‘spending - power’ of the ‘Baby Boomers’.



**Hey honey,  
why don't  
we get a  
Station  
Wagon for a  
second car?**

Operating in an environment of high certainty, the theory and practice of strategy was mainly centred on:

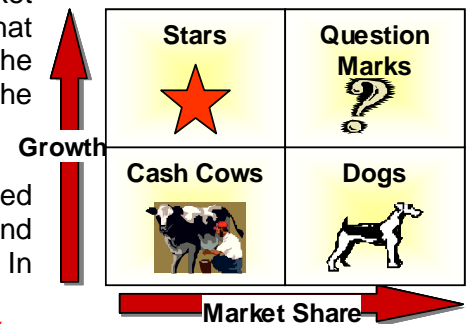
- definitive market ‘positioning’ – market share and associated ‘gap’ analysis,
- fairly predictable forecasts of the future, and
- an emphasis on domination of markets (1<sup>st</sup> or 2<sup>nd</sup> in market share), or a ‘niching’ - positioning within an overall market.



This traditional form of strategy reached its peak in popularity with one predominant theory from the consulting industry – Market Share Analysis. This theory suggested that growth and market share should be the primary factor in the determination of the allocation of the firms (scarce) resources.

Such was the success of this tool (illustrated opposite), that many universities and executives still follow and apply its doctrine. In fact:

**Results of our recent survey show that 72% of respondents still use this technique**



*It is HC+P's contention that traditional approaches to strategic management have lost their relevance. In a high speed world characterised by uncertainty, high technology, consumer indifference and transparency – new methods of strategy (and indeed business management) are required.*

## 2.0 Implementing Relevant Strategic Management Practices

HC+P believes that strategy must be 'balanced' and should incorporate the organisational issues that are the result of strategy (strategic change) – in a context of Strategic Renewal, not solely that of Strategic Management. We define Strategic Renewal as:

“The process of organisational **transformation and renewal**, led by strong **leadership** and the application of **creativity** to develop **innovative solutions**, which are implemented through **entrepreneurial** behaviours. These are fortified through a culture of **learning and knowledge** and are informed through comprehensive **business intelligence**. The process draws on the entire organisations **capabilities, competences, and individuals skills** with the objective of delivering operational excellence as well as the ability to realise **growth**, increases in **shareholder value** and the **creation of new wealth**”

Strategic Renewal is enacted within the context of a fully integrated Strategic Management Framework and managed through a formal Enterprise Performance Management program, utilising the capabilities of the Balanced (Strategic) Score Card. The framework is illustrated as follows:



### Elements of the Integrated Framework

- **Values, Mission and Strategic Intent:** *direction and renewal*
- **Leadership:** *providing motivation and direction*
- **Creativity and Innovation:** *the drivers of renewal*
- **Entrepreneurship:** *making it happen*
- **Learning and Knowledge:** *informing, refining and enhancing strategy*
- **Organisational Transformation:** *facilitating continual renewal*

### Elements of the Integrated Framework

- **Business Intelligence:** *in-depth knowledge about competitive, customer and internal operations*
- **Enterprise Performance Management:** *measurement, management monitoring and reporting and application of Strategic Score Card*
- **Communications:** *understanding of strategy*
- **Strategic Plans:** *translating strategy into everyday operations,*
- **'Emerging Strategies':** *results of renewal and foundation for the future*

HC+P propose that a company seeking to transform, renew or migrate towards that of a *High Performance* organisation must adopt some form of strategic management framework described above, enacted within a context of Organisational Transformation and Renewal.

### 3.0 What Do We Do? Survey Results: Strategic Management in Australia in 2004

Following is a summary of the findings from our survey, which identified strategic management practices conducted in 30 of Australia's top 500 corporations.

#### Strategic Management Practices

It was not surprising to observe solid support for the practice of formal strategy:

- *83% of participants considered that everyone in the senior management team actively participates in strategy formulation and that strategic management is important (72%).*

However, there are doubts as to the effectiveness:

- *only 44% of respondents believe their managers are competent strategic thinkers,*
- *35% of respondents think that not all of their senior managers act in accordance with the direction identified in their strategy*

In a demonstration of a lack of innovation, freshness and simple originality:

- *only 55% of respondees thought strategy was a dynamic process and one that is constantly revised by senior executives, and*
- *34% of respondees indicated that although they visit strategy annually, they follow the same process each year.*

**Conclusion: Executives are committed to the practice of strategic management, but the process appears to be far more critical than the outcome!**

An analysis of the application of analytical tools further confirmed support for the practice of very traditional approaches to strategic management in major corporations in Australia.

### Use of Strategic Management Tools

Strategy Tool	% Use
Competitive analysis	80
Market share/growth matrix	72
Gap analysis	66
Sensitivity analysis	62
Customer surveys	59
Creativity and innovation workgroups	52
Simulation models	48
Shareholder value analysis	45
Portfolio analysis	41
Scenario planning	37
Value chain analysis	31
Game theory	3
Chaos theory	0

**Observation: Most effort goes into the use of tools that are best suited to static, certain environments NOT dynamic uncertain environments.**

### Strategy Process and Content

As illustrated below, managers are satisfied with their ability to link strategies to budgets. **The results also show that although managers evaluate a number of different views of the future (86% agree), half as many (48%) depict a range of scenarios of the future and only 37% conduct scenario planning exercises.**

The relevance of the content of strategy is cause for concern as only a few could agree their strategies were effective in the areas of content. Examples are that 17% agreed that past attempts at strategy formulation had failed; 17% agreed that cost control is more important than strategy; and 14% agree their strategy is difficult to differentiate from their competitors. Although sustainability is an emerging issue, only 31% of respondees agreed that they place as much emphasis on environmental and social issues as they do on economic issues.

Strategy Process and Strategy Content	%
<i>Strategy is linked to the budget</i>	79%
<i>Strategy is dictated primarily by industry forces and emerging trends</i>	66%
<i>Strategy is based on more than a single or static view of the future</i>	86%
<i>– strategy depicts a range of scenarios for the future</i>	48%
<i>– conduct scenario planning exercises</i>	37%
<i>Difficult to differentiate from their competitors</i>	14%
<i>Based on an envisioned future that was so unique, it could not be comprehended by their competitors</i>	14%
<i>So aggressive it is perceived by their competitors as being extremely difficult to achieve</i>	10%
<i>Past attempts at strategy formulation have failed</i>	17%
<i>Control is more important than strategy</i>	17%
<i>Places as much emphasis on environmental and social issues as economic issues</i>	31%

**Observation: Committed to the process – but what is the point?**

## Strategy Effectiveness

Although 66% of respondees agreed that they use the Balanced (Strategic) Score Card as a formal monitoring system to implement strategy, further questioning identified that:

- only 24% agree that they develop strategy maps that clearly identify the extent of correlation between each performance indicator, and
- only 10% formally monitor a Score Card through the application of specialist software.

**Conclusion: Few use the Balanced Score Card correctly as a means to implement strategy**

The results were quite compelling when overall effectiveness was assessed. In most areas, respondees expressed a desire to improve the effectiveness of their strategies, illustrated as follows:

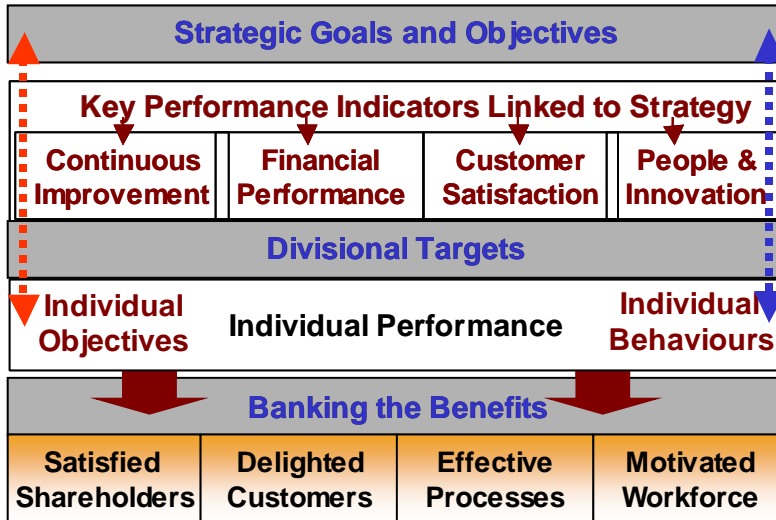
Areas requiring greater strength	% Agree
<b>More effectively communicate their strategy internally</b>	<b>79%</b>
<b>Enhance their capacity to adapt to organisational change and renewal of strategy</b>	<b>79%</b>
<b>Be more entrepreneurial in the implementation of new ideas</b>	<b>75%</b>
<b>Could apply greater creativity and innovation to the strategy process</b>	<b>69%</b>
<b>Need to spend more time evaluating alternative scenarios of their future</b>	<b>44%</b>
<b>Could develop better links between their strategy and their budget</b>	<b>41%</b>

Most importantly:

**73% of respondees agreed that they could implement their strategy more effectively**

## 4. The Solution to Effective Implementation: The Score Card and the Integrated Strategic Management Framework

The Strategic Score Card provides an immediate solution to the dilemma of ineffective implementation. This is however only one element of the bigger picture of the Strategic Management Framework illustrated previously. In addition to the **Strategic Score Card**, Advanced Technology also delivers significantly enhanced performance management and reporting (**Enterprise Performance Management**) and ultimately **Strategic Business Intelligence**. A concentration on each of the other elements of the Framework (Leadership, Innovation, Knowledge etc) will also enhance the organisations capacity to implement strategy efficiently, but also to conduct the practice of strategic renewal more effectively. The extent to which each element should be developed provides the solution to the extent of effectiveness, but the intensity will vary from organisation to organisation.



The primary tool that has been developed to implement strategy is the Strategic Score Card, more often known as the Balanced Score Card (BSC). The Strategic Score Card commences with corporate strategy, but is cascaded down to Business Units (and then individuals if appropriate) through a detailed strategy map. At this level also, the strategy is linked with business plans and at operational level, feeds into the budgets.

The purpose of the strategy map is to identify and highlight the link between strategy and the detailed outcomes – monitored through each of the performance measures and targets and ultimately, action plans. Whilst many firms report that they report business metrics in the format of the Strategic Score Card, it is HC+P’s experience that few Score Cards are actually linked to strategy and therefore, are of questionable use. The use of strategy maps was assessed in the survey:

*.....only 24% of respondents to our survey indicated that they develop strategy maps as a means to clearly identify the extent of correlation between each performance indicator.*

One of the ‘unseen’ but significant benefits of the Score Card is its ability to communicate strategy. As strategically linked Key Performance Indicators are assigned to Business Unit managers and then individuals, far greater attention is given to their existence. This process is significantly enhanced as enabling technology provides immediacy and a means to communicate results interactively – across the entire organisation. **The technology effectively brings the strategy – TO LIFE.** Advanced software also provides the capability to report performance in an interesting and aesthetic manner – a capability that is far superior to traditional printed documents. The benefits of the Score Card are as follows.

- What to does the Strategic Score Card do?**
- ✦ Provides Visibility to strategy – across the business
  - ✦ Provides a formal link – from strategy to budgets and individuals
  - ✦ Influences individual and group behaviour
  - ✦ Provides the focus for those Oh So desired Strategic Conversations

## **5. Conclusion, Additional Research**

The survey served to demonstrate that many Australian organisations practice traditional approaches to strategic management, but HC+P seriously questions the merit of such techniques.

**We have therefore proposed a solution to the practice of strategic management - an integrated Strategic Management Framework – supported by specific tools and techniques such as the Strategic Score Card, Business Intelligence, Organisational Transformation and Renewal etc.**

Having asserted that traditional approaches are inadequate and that alternatives are required, HC+P propose additional research should be conducted. The next research should seek to confirm the application and relevance of the integrated framework as presented. HC+P will be proud to conduct the necessary research, but suggest a consortium of interested parties should undertake this. We will prepare a proposal for such purposes and seek participation from those interested in participating. Invitations will be prepared separately to this report.