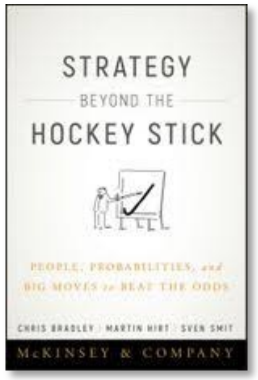

Premise – Despite their best intentions business leaders often get bogged down by human biases and social dynamics that get in the way of clear strategy and strong execution.

Just about anyone proposing a strategy comes in with a confident "hockey stick" projection. But how do you distinguish the true breakthrough plans from the fakes – and then carry through the tough choices needed to make good on those promises?

Strategy Beyond the Hockey stick provides you with practical advice on how to change these dynamics in your strategy room and make the right strategic moves.

This advice is anchored in empirical evidence from thousands of companies, it reveals what really matters – and what does not – for exceptional performance.

Please forward this summary to friends / colleagues for their private educational purposes.

Obviously, I still recommend that you purchase and read it plus other seminal books I've summarised, including …

I'd love to hear what you found most valuable and/or intriguing about this summary

Happy reading,

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Quest Worldwide

The villain is the social side of strategy

The difficulties with today's strategy processes are not news to you? Welcome to the club! More than 70% of executives say they don't like their strategy process, and 70% of board members don't trust the results.

Often times, we think that if we can identify a problem then we can overcome it. But there are two reasons that simply knowing about the social problems isn't enough. The first reason is that strategy is done by humans. The second is that strategy is done by humans working together.

People are prone to well - documented unconscious cognitive biases – overconfidence, anchoring, loss aversion, confirmation bias, attribution error, etc.

Then, when you introduce other people – that is, when the approver is different from the doer – you get agency problems. Agency problems are fuelled by incongruencies between management and other stakeholders. "Sandbagging", "The short game", "My way or your problem" and "I am my numbers" are just a few of the more prominent ways that managers may act in their own interest, and not purely in that of the enterprise and its stakeholders.

People for the most part are not bad; they're just perfectly evolved to play the game.

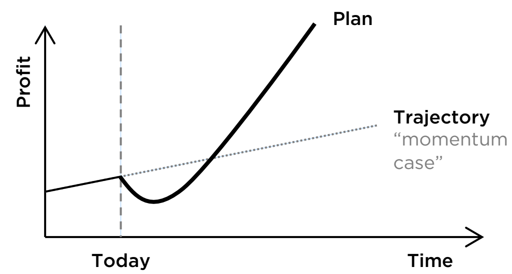
But the point is: Even if we don't like to acknowledge it, we are social creatures and covet status in the tribe. This was an excellent trait from an evolutionary perspective, when it was important to be the big gorilla in the jungle, but can be an obstacle when developing good strategy.

Strategy involves a complex set of motivations in a complex game. Far from having a single goal that everyone can focus on, executives are negotiating next year's budget, competing for resources, maintaining and escalating prior commitments, impressing the board – all at the same time. They know that they have to craft a strategy that claims to generate a 15% increase to get the 10% they really want, and they know that the main act is the budget. The strategy discussion is just the opening salvo.

On top of this, the best breeding conditions for creating a flawed strategy are when the inside view remains unchallenged, creating a false sense of certainty about what will happen. Many – in fact, very many – people do strategy as if they were the only horse in the race, almost ignoring that competitors are making strategy too.

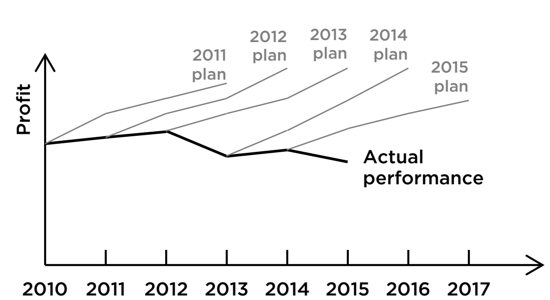
Hockey stick dreams, hairy back realities

The inside games soon get us to the **hockey stick**, the icon of the social side of strategy. We have all seen the graphs that show revenue and profits heading straight out for the sky a few years out: "All that is needed is a bit of an investment for the first year or two, a bit of tolerance for a few losses, then you start booking the huge numbers. It's going to be a great business. If we can just get some additional resources today, and you stick with us a couple of lean years, we'll produce a rocket headed towards the stars."



As many of us have seen from personal experience, these hockey sticks rarely work out, but they are a great way of bargaining for resources for that all-important first-year operating budget.

Hockey sticks plans are the natural outcome of the strategy game, and are too often coupled with timid moves. When successive hopeful forecasts pile up against reality, you get the ugliest chart in strategy: "**the hairy back**". But, real hockey sticks do happen!



With this book, we want to break the hockey stick. We want to address the social side of strategy, so the big moves that drive economic profit and shareholder value can actually happen.

How to find the real hockey stick

At its heart, business strategy is all about beating the market, or in other words defying the power of perfect markets to push economic surplus back to zero. Economic profit – the total profit after the cost of capital is subtracted – measures the success of that defiance by showing what is left on the table after the forces of competition have played out.

In our work on the corporate performance data of 2,393 of the largest companies, covering 165 years, 127 industry sectors, and 62 countries we found that when you plot the economic profit in an ordered line, you find that they demonstrate a power law – the tails of the curve rise and fall at exponential rates, with long flatlands in the middle.

Our analysis shows that a good 50 percent of your (current) positioning on the curve is driven by what's happening in your industry. Highlighting that "where to play" is one of the most critical choices in strategy.

The goal of strategy needs to be to move to the right of the Power Curve (economic profits are highest).

We also found that there are 10 levers that are the strongest determinants of your odds of success.

You probably won't be terribly surprised by any of these 10 performance levers – they're all already somewhere on your list of topics. What hasn't been clear until now – after we have completed our empirical work – is the importance of these levers, and the degree to which you need to act on them to make a real difference.

We've decided to group these 10 levers for ease of reference into three categories.

Your **endowment** is what you start with and include:

1. Size of your company
2. Debt level
3. Past investment in R&D

Trends are the winds that you are sailing which are pushing you along, hitting in the face, or buffeting you from the side and include:

4. Industry trend
5. Geographic trend

Moves are what you do and include:

6. Programmatic M&A
7. Dynamic allocation of resources
8. Strong capital expenditure
9. Strength of productivity program
10. Improvements in differentiation

These 10 factors are measured relative to other companies in the sample. To get a boost, you have to cross an upper-threshold, i.e. the more you can be on the right-hand side of the distribution (when compared to others) for the 10 factors, the better your odds.

Making the right (big) moves

Five big moves make all the difference in shifting your odds. Big moves sound scary, but they are actually the safest bet. They are best done by purposefully making a series of smaller steps over time.

You begin with your endowment – what you have been given, based on your size, your debt level, and your investment in R&D. You operate within the context of trends, which are largely out of your control initially but which you can influence by adapting your resource allocation to catch the right waves. But moves are where the action is. They're more in your control, the things you do. Moves put your money where your mouth is. Moves are collectively the strongest determinants of success – and that's empowering.

The five big moves are:

- Programmatic M&A and divestitures;
- Active resource re-allocation;
- Capital expenditure;
- Distinctive productivity improvement; and
- Differentiation improvement.

Every CEO has most or all of them on the to-do list who isn't interested in better productivity, or investing in growth opportunities? However, it is important to keep in mind that the five big moves

- Matter, because **they predict success** more than others;
- **Need to be pulled hard** enough to make a difference to your odds of climbing the power curve; and
- Are more **effective when combined** – and the worse your endowment or trends, the more moves you need to make.

And in determining what is big, you need an external reference point: It has to be big versus what the rest of the world is doing. You have to take the outside view; don't get stuck inside.

Programmatic M&A and divestitures

The myth that 75 percent of all mergers fail has long been dispelled. M&A does work as a growth lever. But success depends very much on the type of M&A program a company is running.

The path that holds the most promise is programmatic M&A. Our research found that the most successful style of M&A executes on average at least one deal per year in a program that cumulatively amounts to more than 30 percent of market capitalisation over 10 years, with no single deal being more than 30 percent of market cap. Companies that meet this standard on M&A have cleared the threshold and made a big move.

The findings make sense, considering that M&A requires mastery of capabilities through repeated deals. Companies that execute programmatic M&A over years, often decades, become true masters of the art of identifying, negotiating and integrating acquisitions.

Active resource re-allocation

The needed re-allocation isn't just movement between industries, geographies, operating segments, business units, projects, products, or customer groups; it's all of the above. Breaking inertia, freeing up resources from under-performing units, and shifting them to over performing units creates value at all levels irrespective of how you define those units.

Dynamic re-allocation creates value. The analytics are unambiguous. Companies that shift more than 50 percent of their capital expenditure across business units over 10 years create 50 percent more value over that period than companies that move resources at a slower clip.

Re-allocation is not just limited to capex across segments. Re-allocation within segments is important, too, and as is re-allocation of operating expenses.

To re-allocate you have to de-allocate. The social side of strategy makes resource re-allocation sticky. Inertia matters – a lot – and so do your operational silos. We often don't look at all our allocations in their proper context and see how they can be shared or moved. The inside view keeps getting tighter and tighter as you go down the company structure.

Making the right (big) moves continued

Strong capital programs

The third big move is to expand faster than the industry. Pulling the capex lever turns into a big move when your capex/sales ratio exceeds 1.7 times the industry mean for at least 10 years.

Successful capital programs manage a pipeline: making sure you aren't just investing in options that you know are "in the money"; making sure you're investing in some riskier, medium-term options for the company and some longer-term , even-higher-risk options; making sure your pipeline is always full.

There must, of course, be real discipline and robust investment processes. If a project doesn't generate returns at least equal to the cost of capital, it's actually destroying value for shareholders. Again, this is one of the reasons why we use economic profit – after capital charges have been deducted – as out measure of financial performance for observing the Power Curve.

Distinctive productivity improvement

Productivity programs are a management favourite. They are mostly under management control, a lever that can be pulled with relative certainty. However, everybody does these programs, so do they really move the needle, or do they help us to just keep up with industry?

Productivity programs only make a real difference once you clear a high threshold. You have to deliver 25 percent more productivity improvement than your industry median over a 10-year period. If your industry improves productivity at 2 percent per year, your program would need to consistently deliver above 2.5 percent per year.

Pulling this lever hard normally requires extraordinary means and efforts. Being able to force the entire organisation into consistently driving productivity improvement over time, and capturing the bottom-line impact, are real differentiators.

What struck us, though, is that many companies do feel like they're running fast but getting nowhere – relative to competition. All too often, the hard work on productivity is given away in pricing or worse, lost when other parts of the organisation absorb the gain.

Differentiation improvement

The fifth big move covers some of the interesting aspects of strengthening the competitiveness of the business: innovation in products, services, and even business models. Differentiation improvement also covers gains in market share, such a common topic of conversation, and pricing, which – while admittedly not as sexy as innovation – is nonetheless a big lever for relative performance improvement.

Differentiation, expressed here is the comparison between the average gross margin of companies and that of their industry, is a way of summarising just how customers value a company's products and services relative to its competitors.. Your average gross margin needs to exceed your industries by 30 percent over a decade for you to materially increase your chances of moving up the Power Curve.

Differentiation requires long-term thinking – which is hard while you are on the quarterly earnings treadmill. There is hardly an area in the repertoire of strategic moves that is more easily sacrificed for short-term gain than the differentiation lever.

This is where management objectives, incentives, and the long-term interests of shareholders often collide.

You should ask yourself, does your strategy tap your true source of competitive advantage?" That breaks into two questions:

- Do you understand what the source of your competitive advantage is? / Do you know why you make money today?
- Do you leverage what makes you special?

Big moves make for good strategy

Understanding the role of big moves in your strategy is more than just what they are and how they work in isolation, it's also how they work together. The following dynamics are the most important to understand about big moves – and about the very fabric of good strategy:

- **Big moves are really valuable** – The author's empirical research shows that: a) No matter what the inheritance (endowment and trend together) – it always pays to add more big moves; and b) really big moves cancel out the impact of poor inheritance. Even small improvements in odds have a dramatic impact on the expected pay-off, owing to the extremely steep rise of the Power Curve;

The value of moves and inheritance
Inheritance and moves both matter!

Expected 2010-14 economic profit for firms starting in the middle three quintiles

Moves	**Inheritance** (Endowment and Trend together): Poor	Neutral	Strong
Strong	260	1,069	1,360
Neutral	(22)	182	1,102
Poor	(70)	2	161

- **Big moves are non-linear** – As we've shown, making modest efforts on these five moves doesn't improve your odds. Moves are non-linear. Just pulling a lever doesn't help. You need to pull it hard enough to make a difference;
- **Big moves must be relative to your industry** – Even if you're improving on all five measures, what matters is how you stack up against your competitors. You need to outrun if you want to win;
- **Big moves compound** – One move isn't enough, either, if you really want to improve your odds. Moves are additive. Making one move is good, two is much better, and three much better than that; While even one move is hard, in the face of the pressure from the social side of strategy, it's important to pull as many levers as you can;
- **Big moves are asymmetric** – Four of the five moves are asymmetric. In other words the upside possibility far outweighs the downside risk. All, except Capex, increase your odds of moving up the curve and simultaneously decrease your odds of sliding down. Capex is the only lever that symmetrically changes the odds of going up and down. A big capex play amplifies rather than tilts the odds, reinforcing the importance of choosing very carefully the industry and geographic trends that you are betting on; and
- **Big moves are cumulative, not silver bullets** – What you will find is that making these big moves is really the accumulation of good practices over time. The companies that successfully deliver on their big moves make them part of their day-to-day mantra. It's the consistency of purpose that makes moves turn into big moves.

Eight shifts to unlock strategy

Let's get very practical: There is a new way to give your strategy a chance, and it's going to take eight big shifts.

1. From annual planning ... to strategy as a journey

As important as a regular planning cycle might be for ensuring that all important questions are being surfaced and budget processes are being informed, a regular, standardised cycle is not terribly well suited to the dynamic nature of today's business.

Why not discuss some of the key strategic questions and performance every week, or month, at a minimum, complementing traditional annual strategic planning processes?

- Hold regular strategy dialogues instead of just an annual process
- Track your portfolio of initiatives across multiple horizons and update your strategy based on progress
- Monitor a 3-year-back/3-year-forward rolling plan – if you want to track numbers.

2. From getting to "yes" ... to debating real alternatives

Most planning discussions bring one plan into the room. Success is seen as approving that singular plan.

But we all know that deeper reflections is what is needed to get to real strategies. Think of it this way: Real strategy is about making hard-to-reverse choices about how to win. Planning is about how to make those choices happen.

- Frame strategy around "hard to reverse" choices
- Calibrate aspirations against your endowment, trends, and moves to bring an "outside view" into the room
- Compare real alternative plans with different risk and investment profiles
- Track assumptions over time, and build contingencies int your plans so you can evolve your choices as you learn more
- Use de-biasing techniques to ensure quality decision making.

3. From peanut butter ... to picking your 1-in-10s

Peanut butter is the biggest enemy of big moves. It is nearly impossible to make big moves if resources are peanut buttered across all business and operations.

To move, you have to identify the break-out opportunities as early as possible and feed them all the resources they need.

- Adjust incentives so that the team supports the resource re-allocation
- Pick where to compete on a granular level, by vote
- Allocate resources from a portfolio-level view and skew towards opportunity
- Play to win – allocate enough resources to outcompete others in key areas.

4. From approving budgets ... to making big moves

The social side of strategy can make the 3-year plan a cover for the "real game": negotiating year 1, which becomes the budget. Managers tend to be interested in years 2 and 3, but absolutely fascinated by year 1, because that is where they live and die

- Build a "momentum case" instead of a base case
- Do a "tear down" of past results to see what came of trends and what came from moves
- "Mind the gap": Check that the plan is big enough to fill the gap between the momentum line and the aspiration
- Benchmark the big moves relative to competition to test that they are big enough to really move the needle
- Separate the discussion on how moves from the discussion on budgets: One should follow the other.

5. From budget inertia ... to liquid resources

To mobilise resources and budgets, there needs to be a certain level of resource liquidity. Most business do not create resource liquidity upfront, but resource liquidity is, in essence, the currency of strategy.

The handover between strategy and execution happens when resources are made available to follow through on big moves. Execution can then begin, and managers can be held accountable. They no longer have the excuse of resource constraints.

- Start freeing up resources as much as a year before your strategy will need to deploy them
- Move to "80 percent-based budgeting" to unlock a kitty of contestable resources
- Charge managers an opportunity cost for their resources, so that they have an incentive to free them up.

6. From sand bagging ... to open risk portfolios

When BUs develop their strategic plans, as we all know, they sandbag their targets. As you aggregate these plans on a corporate level, the buffers add up to a corporate sandbag that makes the hairy back virtually a certainty

The fundamental idea is to move away from the current dynamic of "sandbag the budget, hockey stick the strategy" to a situation where risks and investments are managed on an aggregate level.

- Force conversations for improvement, growth and risk
- Make risk versus growth decisions at a portfolio level, not within BUs
- Tailor approaches on "no-regret moves", "big bets", and "real options"
- Adjust incentives and measures to reflect the risk people are taking.

7. From "you are your numbers" ... to a holistic performance review

As hard as all the change will be, there is another complication: Whatever you do, you will not be able to do it alone. You will need to bring your team along.

Unless there is a shared sense of shared ownership for the fortunes of the company, you will have a hard time getting the commitment of your tea, to the big moves required to mobilise your business.

- Encourage noble failures, and focus on quality of effort
- Reflect higher or lower probabilities of success in your incentive structures
- Use team incentives over longer time-horizons in riskier contexts.

8. From long-range planning ... to forcing the first step

Most business leaders get stuck. They have grand visions of outcomes and performance levels. But many run into a problem: There is no link between that grand vision and those bold aspirations to a real strategy, no link to the actual big moves that it will take to achieve the vision, and in particular, no link to the first step it takes to get under way in the right direction.

After identifying your big moves, you must break them into approximate goals, mission that are realistically achievable within a meaningful timeframe, say, 6-12 months.

- Put disproportionate focus on the first step when discussing longer term plans
- Roll back the future into 6-month increments and set approximate goals around clear operational metrics
- At first, focus more on actions than results
- Match And mobilise the required resources immediately.