

The future of strategy is leadership

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Abstract

This key note address examines the future of strategic management theory and practice. Specifically, the speech proposes that six “strategic leadership” tasks will take priority: dual strategies; putting vision and mission ahead of strategy; fit between market opportunity, leadership purpose and firm resources; strategy as the hinge between the changing external world and internal company resources; competition between entire business system; and delegation of strategy making to managers below corporate and business unit levels.

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1. The future of strategy is leadership

Change is redefining both strategy and leadership, with the result that the two are looking increasingly the same. Two streams of management practice and thinking are now merging. In this speech I shall identify not only this phenomenon in general, but six emerging strategic leadership tasks that are resulting from this new fusion. I wrote a book more than a decade ago with the title “Managing with Dual Strategies: Mastering the Present; Pre-empting the Future.” The book argued for what was needed at the time — a rebalancing of senior management attention from running the business (today-for-today) to changing the business (today-for-tomorrow). At that time there was too much running, and too little changing.

Today, in 2006, the need for this rebalancing is stronger than ever, and the time the senior executive needs for today-for-tomorrow work is ever more demanding. The world is in a process of massive change, and this change is reverberating through every sector, through every market, and through every company. The call is for new approaches and preparations for the future to side-step the threats to very survival which are on all sides, and even more importantly to take advantage of the multiplying new opportunities which change presents.

John Kotter had something very similar in mind when he stated, also more than a decade ago, “many companies are overmanaged and underled.” Implicitly he was suggesting that there is far too much effort spent on tightening management systems to make the existing business more efficient, and far too little effort spent on leading firms towards brighter futures.

The world’s stock markets are also now telling us something important about this duality, and where continuing new emphasis is needed. From a period in the late 1990s when promises of the future, often unfounded, were driving stock prices ever-higher, we reverted to a period at the turn of the century, where only the present, and today-for-today business seemed to be valued. When a company fell short of three-month earning targets, its stock price took a serious hit. Today we are moving back to balance, and when a company cannot demonstrate that it has a strong grip on its future, as well as healthy earnings in the present, its price is likely to be depressed.

This keynote speech explores the effects of this continuing pressure to attend to change and to the future, on both strategy and leadership. In so doing I want to propose a new idea, namely, that the two are merging and that there is an emerging new common agenda for both.

For planning and implementing strategy, the need is for a broad definition that encompasses both “today-for-today” and “today-for-tomorrow,” and for the latter encompasses a full cycle that runs from vision, mission, and distinctive profile, to

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strategy as we usually understand it, to change actions, and through to the achievement of results. The primordial task of leadership is the strategic one of moving the company towards the future. This focus broadens the notion of leadership far beyond the “softer” tasks of mobilizing people and teams. In fact it encompasses exactly the same full cycle that runs from vision, mission, and profile, to strategy, to action, and to results.

Six “strategic leadership” tasks are emerging as priorities, each of which requires now substantially new thinking. These tasks are:

1. To recognize the duality rather than singularity of strategy, and to act in a balanced way with respect to today-for-today and today-for-tomorrow
2. To put vision, mission, and distinctive profile clearly up ahead of strategy, as opposed to previous notions which put business definition as the starting point
3. To discard the currently popular belief in “resource-based strategy” and replace it with a new basis for strategy making which seeks a fit between resources, future opportunity, leadership purpose, and leadership responsibility (the “can,” “could,” “want,” and “should” of strategy)
4. To redefine the core of strategy itself as a “hinge” between the changing external world and internal organization, functional activity, and business system leverage points
5. To recognize competition between the vertical business systems which compete for the ultimate customer’s attention, not only between the individual firms at one or other levels in the value chain
6. To recognize a growing decentralization of strategy-making and leadership to a “third” level below corporate, and even below business unit levels, namely to the level of individual products, market segments, or projects. I shall call this “program management”.

Each of these six tasks of leadership and strategy are increasingly intertwined, and new solutions for one imply new solutions for the other. I shall take them one-by-one.

2. Developing and implementing dual strategies

Companies performing sustainably must develop “today-for-today” strategies that best deploy existing resources and competences in parallel with strategies carrying them towards the future. Many companies do neither well, falling instead into the deadly trap of 3–5 year planning cycles which neither optimize current performance, nor truly prepare for the future, since 3–5 year plans are often no more than extrapolations of the current year budget. What is needed instead is the following:

a) With respect to maximizing short-term performance:

- Unambiguous and widely shared identification and understanding of today’s strategy
- Proper alignment of the organization to implement this strategy, particularly with respect to program management

definition which must mirror the current segmentation of the marketplace

- Sharp alignment of each of the firm’s functional strategies with the overall business strategy, with attention being smothered on the three or four key success factors which underlie competition in each particular target segment
- Maximum leverage on upstream and downstream activities in the overall business system to produce highest value and lowest costs in the system as a whole. In many cases competitive edge can be effected through leverage points in the business system beyond the four walls of the firm, rather than through firm activities themselves.

Proper and continuing leadership attention to these four points can usually produce very substantial profit gains for the firm, and these opportunities should be exhausted in parallel with the search for new strategic opportunities in the future.

b) With respect to maximizing long-term performance:

- A clear concept of future strategy, for future markets and against future competition, and the strategic change needed to reach it
- A clear concept of future resources and competences needed
- A clear concept of the future organization, particularly the program structure and how resource activities such as sales, research and development, operations, and service may be shared (“pooled”) or attached to each program to find the right balance between scale and efficiency on the one hand, and segment focus and effectiveness on the other
- A clear idea of the pathways needed to achieve the new strategy. Of particularly importance is how to take the firm from one value/cost positioning in the overall competitive map, to another.

3. Putting vision, mission and distinctive profile upfront

When I wrote the book, *Business Definition: The Starting Point of Strategic Planning*, back in the early 1980s, it was a time when business success related more to running the business well, than it was to changing it. Putting business definition up ahead of strategy was therefore the essential frame within which more detailed strategic decisions could be made, and this was appropriate.

Twenty years further on, all has changed, and business definition can no longer be viewed as the right starting point. Instead, with pressing change all around us, those companies and leaders who have a clear vision of the kind of company they are trying to create, a clear sense of mission, and a clear sense of their distinctive profile vis-à-vis competition, create an unambiguous framework for subsequent strategy definition and action. Each of these concepts, that is, vision, mission, and distinctive profile, deserve further explanation.

3.1. Vision

Vision is what the enterprise leadership wants to create, in say 5–10 years. Vision is not a forecast, and nor is it just a

vague dream. Vision is a concrete idea of what the enterprise should look like and stand for in the future. Vision is the driving concept that “pulls” the enterprise and its complete membership forward towards its target.

Vision differs from strategy in the sense that vision requires an explication of the shape of the future world, of the sector and industry within which the company competes, of how competition will look, and how the enterprise itself will create value for customers in the future, and differentiate itself from others. Strategy is, by contrast, the concretization in clear decisions and investments which the firm has to make in order to move towards the future vision.

3.2. Mission

Mission is, at best, a very short expression of the basic *raison d'être* of the business, that is, its fundamental purpose. Mission includes three essential statements: what we do, for whom, and why. Alcon's mission statement “preserving and restoring sight” and that of SKF, the bearing systems company, “trouble free operations,” share the distinction of mission statements which are not only short, but framed in customer terms.

In a changing world, coming right with respect to the vision and mission of the enterprise puts strategy and also subsequent decisions into a guiding frame. Without these two lighthouses to guide the way, enterprises and their management are likely to lose their way in the storms of change, and end up on the rocks.

3.3. Distinctive profile

Distinctive profile is what sets a company apart from its competitors in the perception of the customer. Distinctive profile can have its origins in the “what,” “how,” or “why” of a company's approach to the market, or in any combination of the three.

With respect to “what” a company does, the distinctive profile may depend on differentiated perceived value or lower costs, or both. With respect to “how,” the distinctive profile may depend on the underlying process or organizational approach which the company uses to connect to its customers in its pre-sales, delivery, or post-sales activity. With respect to “why,” distinctive competitive advantage may be traced to the basic mission or purpose of the enterprise.

4. Balancing the “can,” “could,” “want,” and “should” of strategy

Resource-based strategic thinking is appropriate in less dynamic markets than those we have today, where building resources and competences were able to provide extra muscle to win defined battles. In changing markets, resource-based strategies run the risk of building muscle-power for the wrong task. In such markets, the “can” of strategy (i.e. available competences and resources), have to be closely aligned with

future opportunity, and the definition of that opportunity becomes therefore a vital ingredient to strategy making.

But while defining opportunity (the “could” of strategy) is necessary, it is still far from sufficient. In rapidly changing markets, as we have seen, vision and mission have high priority, and what management “wants” to create as well as what it feels it “should” create from the point of view of broad responsibility for society as well as enterprise, significantly enter the strategic equation. “Can” and “could,” are importantly tempered by “want” and “should,” and strategies which rely primarily on the “can” dimension, so-called resource-based strategies, are incompletely formulated in rapidly changing markets.

5. Focussing on strategy as a hinge between the external world and the internal world of the firm

The growing leadership challenge is to make sense of a complex changing world before others, and to realign the organization, internal functional activities, and business system activities, to be ready to take advantage of new opportunity. Leaders therefore have to work on two kinds of strategic alignment:

- first, the alignment (and continual realignment) of “core strategy” with the outside world, and particularly the changing competitive environment of the industry. I call this “upstream alignment”,
- and second, the alignment of “internal” organization, functional activities, and business system activities with changing core strategy. I call this “downstream alignment”,

Core strategy in these two senses boils down to getting four key decisions right as the linkpins between outside change and internal realignment.

1. **The goal structure** of the business, in particular its role vis-à-vis other businesses in the company portfolio. Typical choices range from “investing” (usually implying negative cash flows in return for higher growth and market share gains) to “holding” (implying steady cash flows and steady market position), to “divesting” (implying rising cash flows at the expense of further growth and share)
2. **The business definition.** In a 1980 publication, I pointed out that business definition can be thought of in three dimensions: the customer groups which are targeted; the customer functions which the firms chooses to serve; and the technologies or ways to approach the business, which the firm uses to satisfy its customers (Abell, 1980)
3. **The perceived value/price positioning** of the business on a two dimensional map which has perceived value on the vertical dimension, and delivered cost/price on the horizontal. Such maps are not only essential to understand the fundamental competitive stances of each player in a market, but their trajectories towards new positions
4. **The segmentation scheme, and chosen focus** of the business with respect to customer segments and the key

success factors which drive each. Essential here is a strategic concept of the business which focuses the whole enterprise attention on customer satisfaction in defined target segments, and which smothers attention on the key success factors required in each.

All other so-called “strategies,” such as marketing strategy, manufacturing strategy, technology strategy, R & D strategy, and IT strategy, derive from the four fundamental choices above. Each has to be aligned with the core strategy hinge, and none may have a life of its own. The leadership task is to develop a unique forward comprehension of the market as it unfolds, to define the four key elements of the strategic hinge, and to make sure that all other derivative strategic elements and operational activities are realigned on the downstream side of the hinge.

6. Competing through business systems, not through businesses

Creating customer value occurs not by a single business entity in the vertical business chain, but by the system as a whole. Not only is the offering differentiated in the customer’s eyes by the perceived value, but also by the totality of the delivered costs, and hence price. Most of our conventional notions of competition do not however account for this more holistic version of competition, and instead we imagine firms competing with their counterparts at the same vertical level in the system.

Recent attention to “supply chain management” does little to change this misrepresentation of reality: in many minds, supply chain management is primarily a logistics concept, closely related to IT strategy, and the leader’s task is to reduce time delays in the chain, to reduce unnecessary inventory buffers, and to make the order-to-delivery process more efficient. This interpretation misses the important leadership task of developing partnership relationships between key actors in the supply chain, and orchestrating the whole value creating process for higher value and lower costs.

While a marked trend in today’s business world is to deconstruct vertical systems from a financial ownership viewpoint — often with the prime objective of turning fixed costs into variable costs, the leadership task of turning arms-length relationships into true partnership arrangements is still underestimated. While some sectors, like the automobile industry, have recognized the true benefits of such partnership — in joint development activities aimed at improving customer value, and coordinated manufacturing aimed at higher efficiency with lower costs — this is still more the exception than the rule. A new leadership focus on supply chain partnership is a growing requirement, as change forces financial and ownership decoupling.

7. Empowering program management

Our conventional wisdom about leadership and strategy is that both are considered at two main levels, i.e. corporate level

and business unit level. The reality in many companies today is that leadership and strategy are being pushed down one level further — to product-defined businesses, to market segment-defined businesses, and to projects leading to new business. Almost always, this decentralization has to be accompanied by new managerial frameworks and “glue” from the top. In other words decentralization should beget centralization. It is not too much to say that recent heightened attention to governance is a direct result of decentralization without proper concern for the board and top management systems required to achieve overall strategic direction and accountability.

The new leadership task is therefore twofold. On the one hand the task is to create “locomotive” entrepreneurial initiative from below, and a cadre of leadership at the third level which can take such business-wide responsibility. On the other hand the task is to create the leadership culture, systems, and approaches from above which allow decentralized leadership to flourish.

Pushing leadership and strategy making to the third level in an organization invariably involves the development of matrix organizations and matrix relationships. The decentralization is required precisely because markets are increasingly segmented to drive competitive advantage, because entrepreneurship from below is an enormous force for new growth, and because complex change in segments and sub-segments render centralized leadership impotent. Nevertheless, centralization is required to take advantage of scale and synergies which, if all functions were to be decentralized, would lead to duplication, cost disadvantages, and inefficiencies.

Thus the new leadership task from above and from below is to find the right balance between the two. In practice, this often results in substantial decentralization of activities which are close to the customer, and substantial centralization of activities which we normally think of as “back-office.” This may include operations, logistics, services, research, development and the like. Depending on the nature of the business at this third level, different solutions may be needed for different products and markets, so that leadership has to find the appropriate balances in a variety of different situations, while always keeping ahead the idea of organizational clarity and simplicity.

8. Conclusions

Accelerating change is accelerating our need to view strategy and leadership as two sides of the same coin. This is a sea-change from the days where managerial agendas were one thing, and strategic agendas another, one merely overlapping partly with the other.

The new leader has a new strategic agenda, which starts with vision, mission, and distinctive profile, continues with strategy in the sense of a hinge between outside and inside, and ends with action and results. This clearly defines leadership in a more holistic way than just people leadership, and it defines strategy in a broader sense as the same whole interconnected process. The hinge point of strategy boils down to four main elements: goals, business definition, value proposition, and positioning.

Six new leadership tasks, all strategic in nature, are emerging as priorities: to lead with dual strategies; to put vision, mission and profile clearly up ahead of all strategic decision making; to avoid singular emphasis on resource based strategic thinking; to clarify the fundamentals of strategy at the strategic hinge point; to redefine competition in terms of business systems (and to identify the leverage points upstream and downstream); and to decentralize leadership and strategy with a sharp eye to new integrating mechanisms to hold decentralization together.

Looking to the future, expect that change will drive increasing congruence of strategy and leadership in practice, and expect that change will also join the two fields in

academia. This conjunction foretells not only the merging of academic departments that in most schools grows out of general management on the one hand, and organizational behaviour on the other, but increasing research and teaching that combines the two. Such synergy is the way the changing world of practice is developing, and forward-looking executives leading change are already practicing what we in academia should be preaching.

Reference

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