The Strategy Handbook

A practical and refreshing guide
for making strategy work

Part I. Strategy Generation

Jeroen Kraaijenbrink

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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.

The goal of this book

Strategy

↓

Practice

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.

19

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

21

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*.

The Strategy Sketch

7. Risks & costs
6. Revenue model
2. Partners
1. Resources & competences
5. Value proposition
3. Customers & needs
4. Competitors
8. Values & goals
9. Organizational climate
10. Trends & uncertainties
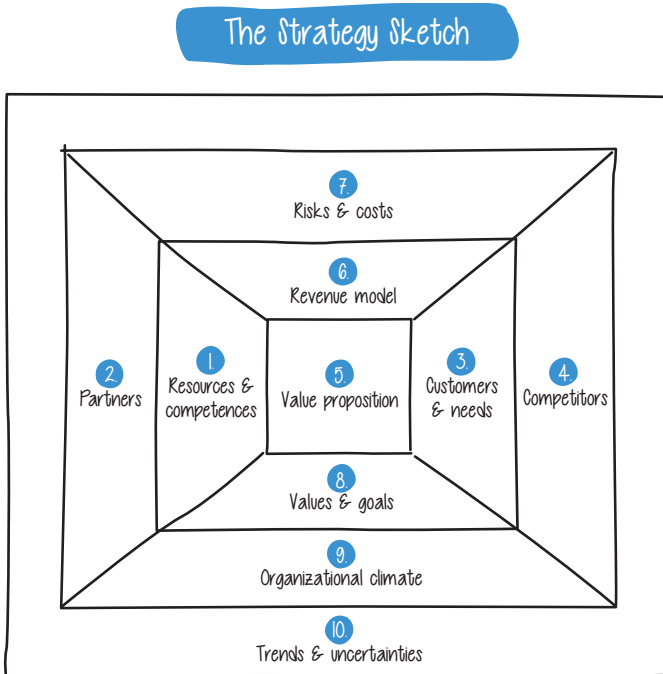
On the left-hand side of the Strategy Sketch we find the organization's *means* – its resources and competences and its partners. These tell you what value the organization is able to offer. On the other side we find the organization's *market* – its customers and needs and its competitors. These show 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.

25

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 — Conceptual world: Ideas and words

Strategy execution — Material world: Stuff and actions
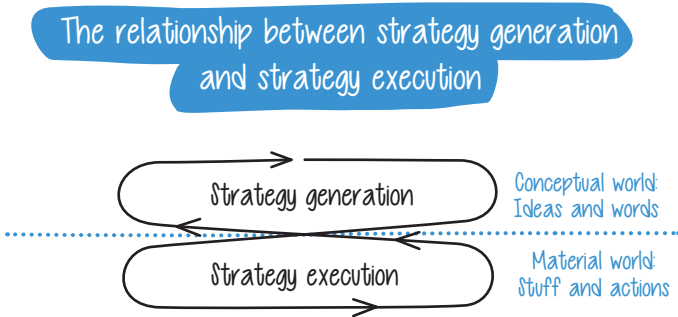
Strategy generation and execution influence one another. This is important because it means that not does only strategy generation influence strategy execution, but also the other way around. Of course, strategy generation may come before strategy execution, and your organization might separate them 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:

Strategy as an emergent process

New ideas are embraced during the strategy generation process

Baseline strategy

Obsolete ideas are removed during the strategy generation process
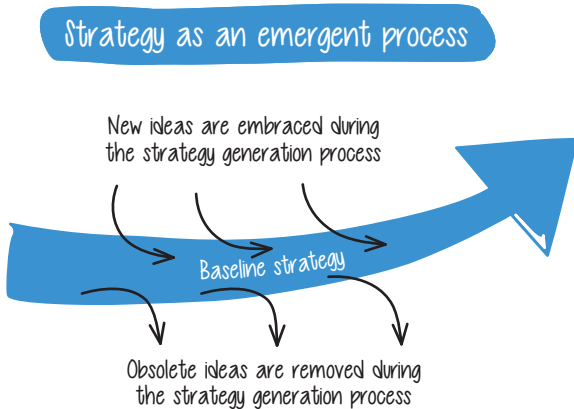
The five steps of strategy generation

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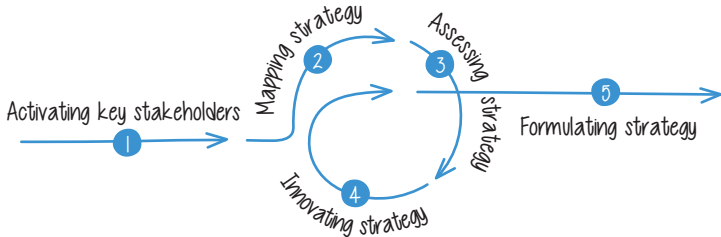
Step 4 **Innovating strategy.** *Renewing and redesigning the organization's strategy through incremental or radical innovation.*

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 five steps of strategy generation

Activating key stakeholders → 1 → Mapping strategy 2 → Assessing strategy 3 → Formulating strategy 5

Innovating strategy 4

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
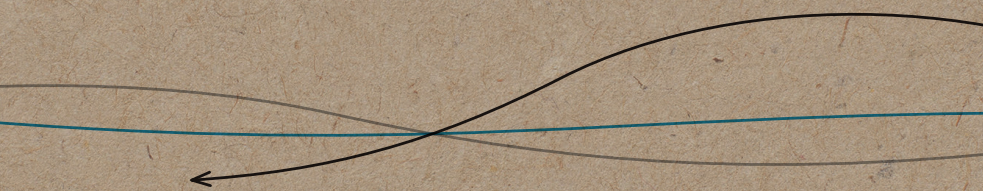**Strategic challenge:**   How to grow and at the same time enjoy work
                               more? Anisha wants to remain on her own
                               and faces two strategic challenges: How to
                               distinguish herself from others and how to
                               increase revenue and impact without simply
                               working more.

In this first part of *The Strategy Handbook* Jeroen Kraaijenbrink offers a refreshing and practical approach to strategy generation in which creativity, interaction, and value creation are central. Based on more than a century of insights from the strategy literature and on a trial and error process with strategists from over 300 organizations, the book's purpose is as relevant as it can be: making strategy work.

In an accessible and down-to-earth style *The Strategy Handbook* guides you through a complete five-step approach to strategy generation. It comes with a wealth of advice, tools, and exercises that can be immediately applied in the everyday practice of any organization wanting to improve its strategy.

The book is easy to understand and to apply. Rooted in research, though, it demonstrates an acute awareness of the subtleties of strategy generation. Through this combination of simplicity and depth *The Strategy Handbook* is a must-read for both novices and more seasoned executives, managers, and entrepreneurs.

For more information about The Strategy Handbook, please visit the official website: www.thestrategyhandbook.com