proteus

Innovators know that the importance of strategy decreases as uncertainty increases. The solution? Strategize. Then, strategize again.

What enabled the Indian Team to overcome the mighty South Africans in the first test match this year? Great game plans? Or great players?

Will next assembly election be won with a superior campaign design? Or with memorable speeches or tweets?

Whether the arena is sports, politics, or business, the question is enticing. Which is more important: a great strategy or great execution?

Through the 1980s and 1990s, well-known strategy consulting firms such as McKinsey, Bain, Boston Consulting Group, and others, amassed influence by perfecting the practice of strategy development and helping hundreds of clients improve their business performance. More recently the allure of strategy has waned. Notably, one of the more popular business books of late is Larry Bossidy & Ramcharan's ***Execution*****.**

We cannot resolve the question in the space of a short paper here. In fact, the question cannot be resolved at all. But we shall share the following observation:

Never is execution more important than when innovation is at the heart of a strategy.

This is because innovation always involves treading into uncertain waters. And as uncertainty rises, the value of a well-thought-out strategy drops. In fact, when pursuing entirely new business models, no amount of research can resolve the critical unknowns. All that strategy can do is to give you a plausible starting point. From there, you must experiment, learn, and adapt.

This is easily forgotten, especially by companies that rely on strategy consulting firms. A mindset develops: Outside experts develop the strategic plan; our job is to carry it out.

As companies have more capital to risk on speculative businesses, this mindset becomes more dangerous. When a senior executive weighs a decision to risk tens of millions on an experiment, surely it is comforting to have an outside expert verify the strategy is sound. But regardless of the qualifications of the outsider, the strategy cannot be taken as gospel. There are too many uncertain factors that nobody can resolve. Even the best strategy is only a hypothesis. No matter who developed it, it must be assumed wrong.

We have studied several examples of established organizations investing in experimental businesses. Several fell into the same pitfall -- mistakenly assuming the initial strategy, developed at great expense by outside experts, was correct.

For example, when a major technology company decided to launch a new services business, it based its initial resource commitment and value proposition on extensive research by a consulting firm. The services constituted a new market -- one projected to grow rapidly as large corporations sought to outsource ever greater portions of their IT departments to save money. But the market did not materialize until several years later. Meanwhile, believing the strategy was right on, the company kept redoubling its effort, and escalating their investment, until finally the losses were so great that the leader was quietly resigned and nearly half of the workforce dismissed.

The company subsequently invited the consulting firm to come back to diagnose what had gone wrong. Naturally, the firm blamed the problem on poor execution. After all, their strategy was brilliant.

Right answer, wrong reason. Yes, the problem was poor execution. But the sign of poor execution was not the (self-judged) brilliance of the initial strategy. The sign of poor execution was that the leaders never questioned the strategy and never revised it.

Execution, for a proven business, it is about performing at or above known standards. Many large, established organizations are able to sustain success because they are ruthless about holding their managers and big 4 consultant accountable to meeting or exceeding standards.

Executing an experimental business is different. It is about zeroing in on the best possible strategy. And in the process, discovering what standards are possible.

Another company we studied, a media company, understood this. Rather than hiring an outside expert, they developed their own strategy -- and constantly questioned it using a Management Audit. They developed a product and a pricing model, and then quickly gathered data about which features their readers valued, which they did not, what they were willing to pay for, and what they were not. The business is profitable today because its leaders understood that when it comes to innovation, execution is not about fulfilling the script rather it is about constantly rewriting it.

We as management auditors helped them understand the new perspective.