How to stay in pole position
Amanda Goodall

The Society’s new CEO sets out his vision p6
Board must not play a cameo role p22
Strategy as a way of life p28
CONGRATULATIONS TO ALL THE SPS AWARD WINNERS

The team at Square Peg International offer our warm congratulations to the deserving winners and shortlisted companies at the 2012 Strategic Value in Corporate Reporting Awards who all set the standard in corporate reporting.

Square Peg International are proud sponsors of the Best Overall Strategic Value Added by a FTSE250 Company Award.

Our warm wishes for your continued success!

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The strategist’s role should be to help shape a business so insight is seen as the platform for strategic thinking and strategy development.
Following the recent changes to the SPS board, including the departure of chairman and long-serving trustee Ian McDonald Wood, the Society is taking the opportunity to examine its ongoing role in the evolution of strategy as a discipline, and its future as part of the international strategy community.

As part of this review, an Executive Development Group has been established to work with new CEO Vincent Rousselet. In our interview on page 6, Vincent discusses what attracted him to the SPS and outlines his vision for the crucial year ahead – starting with the ECM in February, where the Society’s own strategic plan will be debated.

Much of the thinking for the new direction of the SPS emerged from its working conference at the Said Business School earlier this year, which welcomed delegates from all over the world. On page 10, we report on the issues discussed at the meeting, notably membership of the Society, the development of a body of knowledge and the importance of international partnerships.

Meanwhile, in this issue we also report from the 2012 Strategic Value in Corporate Reporting Awards. Senior executives, academics, politicians and guests joined the Society in celebrating the companies that demonstrate the best of strategy disclosure. All winners and shortlisted companies display strengths that could be adopted in the wider business community. This year there was a broader range of categories, with a new line-up of awards including ‘best strategic leadership’.

Indeed, one of the most elusive qualities to pin down in business is that of effective leadership – it can be tricky to identify the specific effect that leadership has on an organisation’s performance. However, research based in the arena of Formula 1 has sought to establish why those who have amassed expertise in the core business area make for better leaders than generic managers or academics. Amanda Goodall details the conclusions of her research and its implications for strategy on page 16.

Even as the nation revelled in staging this year’s Olympics and relished the success of our athletes, the role of G4S in the security shambles preceding the Games brought the company into disrepute. It joined JP Morgan and Barclays on the roster of major corporates contributing to London’s ‘summer of scandal’. On page 22, Jennifer Sundberg contends that one reason behind such calamities is that boards are often in the dark about risks – or opportunities – because of the poor quality of company information on which they are forced to rely.

The value of good intelligence on risks and opportunities is also of central importance to companies seeking to expand into the world’s emerging markets. Peter Williamson, on page 24, argues that many of these nations have in fact now emerged, meaning consumers already enjoy extensive choice. He says that it is now indispensable to have awareness of the new rules of adapting to local infrastructure, approaches to innovation and attitudes to corporate reputation.

Paul Harris also points to the sharing of information in his examination, on page 28, of the benefits of embedding strategy as a way of life in an organisation. He believes that strategy cannot be a part of company culture unless it resonates with every employee, rather than being seen as the preserve of the board. The correct use of data, he says, provides the insight that is key to such cultural change.

And this chimes perfectly with Vincent Rousselet’s view that strategy is based on knowledge and facts. He has launched an online survey and his message to members is that their feedback will be vital to shaping the Society’s future.
**Events**

**JANUARY 2013**

**Open Innovation**
The inaugural event in the SPS Strategic Webinar series, focuses on a topic central to any organisation looking to differentiate its value proposition. By leveraging the insight of a broad range of constituencies, an organisation can accelerate the implementation of a stronger, sharper and more relevant set of new services and products. Our two highly experienced speakers, Dennis Pannozzo and David Smith, will share how to best approach open innovation as a lever for success.

*Date:* 16 January 2013 (9–10am GMT)
*Location:* Webinar
*Details:* www.sps.org.uk

**FEBRUARY**

**SPS Extraordinary general meeting**
The Strategic Planning Society’s EGM will be held on 4 February to discuss the strategic plan underpinning the future of the Society. The meeting will take place in London and also via audio conference, and detailed papers will be sent to members in January. It will be an important event in the future of the SPS, and all members are encouraged to attend and vote on the proposals.

*Date:* 4 February 2013
*Location:* London
*Details:* www.sps.org.uk

**MARCH**

**Technology Frontiers**
Technology has moved beyond simply transforming how we live – we are entering an era where it will redefine who we are. More than 250 senior business leaders will be joined by The Economist’s Tom Standage to help foresee how advancements in technology may affect the operating environment, customers, competitors and business models.

*Date:* 5–6 March 2013
*Location:* London
*Details:* www.economistconferences.co.uk

**Strategising Practices from the Outliers:**
*Enabling ‘Big Bang’ Innovations*
In the struggle to survive in an ever-changing business environment, organisations are constantly reinventing themselves. This special conference aims to employ the practices of ‘outlier organisations’ as working examples of successful and innovative management of large-scale change.

*Date:* 20–23 March, 2013
*Location:* Lake Geneva
*Details:* geneva-strategicmanagement.net

**APRIL**

**BizStrategy 2013: 3rd Annual International Conference on Business Strategy and Organisational Behaviour**
A variety of perspectives, models and approaches inform our understanding of the formulation and implementation of a business strategy. BizStrategy provides opportunities for academics, researchers, experienced professionals and businesspeople to share their research findings.

*Date:* 22–23 April 2013
*Location:* Singapore
*Details:* www.biz-strategy.org

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**News**

**Executive development group: progress update**

Following the announcement of the formation of the EDG at the end of October, the seven members of the group are making good progress. Four workstreams are of particular importance:

- **Constitution of the Society** – Under the skilful coaching of member Niall Campbell, we are reviewing the possible options to update the Society and ensuring we stick by the necessary rules and regulations.
- **Financials and organisational improvement** – Treasurer and trustee Colin Tuckwell is leading this workstream in conjunction with member Mark Swan in order to build sound financial and operating processes, define service standards and build an increasingly responsive organisation and culture for the future of SPS.
- **Member research and value proposition** – With the help of Charles Fair, we are reaching out to current, past and future members to understand what they value most about SPS.
- **Strategic framework** – Fellow Jon Roughley is consolidating the facts from the other workstreams, augmenting them with market knowledge and collective thinking, into a revised strategic plan.

Having got off to a good start, the focus is now turning to the EGM, scheduled for 4 February 2013 in London (see left). The overall project plan is updated regularly by Mark Swan who applies his tactful diplomacy at every meeting to keep the EDG on track.

“Is a real privilege to work with such a group of talented and experienced individuals,” says interim CEO Vincent Rousselet. “We are leaving no stone unturned in our programme. Together, we aim to shape some well-thought-out proposals for the future of the SPS, ready for the members to review at the forthcoming EGM.”

Other members of the Society are welcome to contribute to the EDG. Simply contact: Colin Tuckwell on colin.tuckwell@sps.org.uk / +44 (0)7899 763100 or Vincent Rousselet on vincent.rousseau@sps.org.uk / +44 (0)7710 570 554

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**SPS member research launched**

The future of the Society should be built on the desires, needs and ambitions of the members. We are therefore canvassing the opinions of current, past and prospective future members to make sure we ground the strategic plan, and use the insight from members to design new initiatives and services that they will value.

To share your views simply visit the online survey: http://tinyurl.com/spsl2a or email your comments to research@sps.org.uk. We will run some webinars to capture more qualitative comments and also hope to run at least one focus group to discuss in-depth views and reactions to the current and future possible services that the SPS can offer. Finally, all the Fellows of SPS have been asked for their input and suggestions.

Fieldwork will be broadly completed by Christmas, to allow the Trustees and the EDG to incorporate the findings from the research into the strategic plan. A major element of this will be the definition of a new set of value propositions for members.

The results from this phase of research will be shared with the members at the EGM on 4 February 2013.
Meet Vincent Rousselet: CEO

Vincent Rousselet was appointed interim chief executive officer of the SPS in November 2012. We recently caught up with him to discuss his plans for the Society and the opportunities he sees for the organisation and its members.

First, can you tell us about your background and career?
I was born and educated in Paris, and moved to London 20 years ago to work for a division of Largardère Group, one of the leading publishing companies in the world. My career since has been mostly in the telecom and IT sector, first as a strategy consultant in PA Consulting, then at BT and latterly at Fujitsu, where I was strategy director for non-Japan operations. In that time, I have been privileged to work in more than 20 countries, helping global organisations to address issues of strategic importance.

Which of your skills do you feel will be most important for the SPS?
I believe the trustees saw a good fit on a number of fronts – my international experience, marketing background and track record as a strategist. Central to the future success of the SPS is the collaboration between all the groups that make up the Society: members, fellows, trustees, and partners in the commercial and academic spheres. So, an active listening and collaborative approach, allied to the determination to get things followed through and executed, are the two personal characteristics I’ll use most to start the Society on the next stage of its journey.

Why did you decide to join the SPS as its CEO?
I have been aware of the SPS for quite a while and thought, from the outside, that more could be achieved for the members. The SPS has a long and distinguished history and my discussions with people inside and close to the Society showed a strong reservoir of goodwill. The SPS can be an extremely relevant partner for strategic managers from an early point in their careers, helping them to succeed. For example, I see tremendous value in its providing strategy practitioners and strategic managers with solid, up-to-date concepts and tools.

What are your first priorities?
Understanding the aspirations and expectations of the members, hence the survey we kicked off in November. We are also canvassing the 12,000-strong LinkedIn SPS group. Good strategy is based on knowledge.

What comes next?
Working with the trustees and the executive development group, my next task will be to develop a value proposition for the Society, an articulation of the benefits the organisation can bring to its members, personally and professionally. In fact,
speaking of a single value proposition is almost certainly an over-simplification. I envisage a series of such propositions, which will directly address the needs of specific groups of members, based for example on common interests like industry, location, strategic disciplines or age groups.

How would you like to see the balance in the SPS between practitioners and academics?
My sense at this stage is that we could reinforce links with and representation from academia. I see value in this rapprochement for practitioners and for academics and I am working with the trustees to address this relationship in the coming months.

What are the key events for 2013?
Our extraordinary general meeting at the beginning of February will be an important moment for us and I would encourage all members to attend the EGM, either in person or remotely, as we plan to enable virtual attendance at the meeting. The meeting will be in London on 4 February – further details on the venue and agenda will be issued nearer the time. We are also starting a series of strategic webinars, with one on open innovation on 16 January.

And what about the rest of 2013?
After the EGM, I believe one or two events during the year, perhaps one in June to consolidate the progress made at the EGM, will provide good momentum. I am thinking of sessions similar to the ‘Developing strategy as a profession’ conference held at the Said Business School in March 2012, again augmented by virtual attendance for those not able to travel.

That sounds promising – what else?
This magazine has been a highly valued member benefit for many years now, publishing a rich mix of articles from the strategy classics through to emerging ideas. But we need to build on that success, ensuring that it is an even more valued resource in future – and that it is aligned to the Society’s new mission.

What is your view on the internationalisation of the SPS?
There are a number of ways to answer this. First, many of our members work for or with global organisations, and I feel we owe it to them to provide insight and support that is global in nature. Second, it is worth noting that, at the last census I took of the membership, the SPS is present in more than 80 countries, and over 35% of our members are based outside the UK or the US. We are therefore already an international body and, in my view, we can build on this further. Members tell me they value the SPS because of the network of like-minded strategic managers they have access to. We are certainly including this dimension as part of the value proposition I mentioned earlier.

Finally, as you embark on this journey, how would you describe your state of mind?
A saying from the south-west region of my country comes to mind: avoir le pain et le couteau, meaning to have everything needed to take action. Based on my early interactions with members, trustees and other interested parties, my sense is that, as an organisation, we have the bread and the knife.
We are already in the process of clarifying our mission and have a number of draft value propositions to discuss with members. We can then put the plan in place and deliver the activities and benefits required. I am really passionate about making this happen. Finally, I look forward to members’ and readers’ suggestions to make the SPS even more relevant to their needs.

Vincent Rousselet can be reached at Vincent.Rousselet@sps.org.uk
2012 Strategic Value in Corporate Reporting Awards

Earlier this year the SPS held its sixth annual awards for excellence in corporate reporting among FTSE350 companies. Senior executives, academics, politicians and guests joined the Society in celebrating the companies that demonstrate the best of strategy disclosure.

How a company puts into words its strategic thinking and its capacity for strategic management offers an effective way to assess that company’s potential. We can then assess more effectively the risks attaching to future earnings and future performance.

Annual reports enable us to assess a company’s prospects relative to others, because regulation and best practice guidance provide the occasion and the context for companies to present their strategic thinking. We can, in fact, compare strategic frameworks just as we can compare balance sheets.

The SPS has been tracking the strategic content of corporate reporting by listed companies in conjunction with independent research firm FutureValue since 2004, when we first published on this topic in Strategy Magazine. FutureValue’s assessments and its Strategic Value Ranking provide the starting point for our judgement. All the companies shortlisted are exemplars and, in many respects, role models for others.

**BEST STRATEGIC LEADERSHIP**
A company demonstrates strategic leadership in narrative reporting by showing clarity and rigour in strategic thinking, through a well-articulated and robust framework. It displays implicit understanding that effective strategic management is as much about where the company has been as where it is now and where it is going. It sets out how it is investing in the capabilities its strategy will require in future, while embracing and integrating social and environmental factors within the framework.

**WINNER:** Rolls-Royce Holdings
**SPONSOR:** Square Peg International

**SHORTLISTED:**
- Anglo American
- BAE Systems
- Man Group

**BEST GROUP STRATEGY**
More complex corporate structures require even greater clarity of strategic thinking and stronger strategic frameworks to show that the group as a whole is worth more than the sum of its parts. The truly effective group strategy discussion will demonstrate how the business model applies to all its underlying businesses, how its declared objectives are relevant to all its units and how its strategy adds value not achievable by the businesses independently.

**WINNER:** Lloyds Banking Group
**SPONSOR:** Addison

**SHORTLISTED:**
- Aviva
- Rio Tinto
- UBM
BEST BUSINESS MODEL
The business model is the foundation of a company’s strategic framework. It provides data and evidence to demonstrate how an enterprise creates and delivers value distinctively to its core markets. In this reporting cycle the UK Corporate Governance Code, with its requirement to present the business model, applied only to a minority of companies. But the best strategic reporters have long recognised the importance of presenting the foundation of their strategic framework.

WINNER: Man Group
SPONSOR: Black Sun

Shortlisted:
• 3i Group
• Aggreko
• Inchcape

BEST KEY PERFORMANCE INDICATORS
Effective strategy is about how historic performance relates to current and future activity. Of crucial importance are the metrics that measure a company’s operational performance to provide senior executives and the board with an effective means to monitor strategic achievement. The quality of these key performance indicators is evidence of the potential for good strategic management.

WINNER: ARM Holdings
SPONSOR: Strategy Magazine

Shortlisted:
• easyJet
• National Grid
• Rolls-Royce Holdings

BEST RISK REPORT
How a company considers, evaluates and reports risk is an important aspect of the quality and rigour of its overall strategic thinking. There are broadly two elements to covering risk in the annual report: one concerns the processes for managing risk; the other relates to the capacity for identifying and prioritising principal risks and uncertainties.

WINNER: Marks and Spencer Group
SPONSOR: Rare Corporate Design

Shortlisted:
• RSA Insurance Group
• TUI Travel
• Unilever

BEST STRATEGIC GOVERNANCE
Too often a board can seem remote from the essential processes of setting a company’s strategic agenda. Strategically effective companies focus not only on the ‘what’ of strategy but also on ‘how’ it becomes a living driver of value and future potential.

WINNER: BAE Systems
SPONSOR: Carnegie Orr

Shortlisted:
• African Barrick Gold
• Tullow Oil

BEST STRATEGIC CAPABILITY
Growth strategy requires continuing investment in the enterprise. Most of this investment is in hidden assets, ‘expensed’ off the balance sheet. Companies that think strategically understand how these capabilities are fundamental to their future success. They also know that it is important to show how they continue to invest in them.

WINNER: Serco Group
SPONSOR: Tomorrow’s Company

Shortlisted:
• AstraZeneca
• Aviva
• Premier Farnell

MOST IMPROVED STRATEGIC VALUE NARRATIVE
Experience suggests that improvements made by companies in narrative reporting are incremental rather than dramatic. This is usually because substantial improvement of reporting narrative presents a major challenge that often has as much to do with the impact of such change within the business as with how the business reports.

WINNER: Telecity Group
SPONSOR: Radley Yeldar

Shortlisted:
• ARM Holdings
• Drax Group
• UBM

BEST SHARED VALUE
Shared strategic value is about good stewardship and the fundamental sustainability of a business to the benefit of all its stakeholders. Sustainability is central to strategy; although many companies prepare a separate sustainability report, what really matters is demonstrating how the company integrates this into its strategy and shares value with all.

WINNER: Anglo American
SPONSOR: UK Sustainable Investment and Finance Association (UKSIF)

Shortlisted:
• Fresnillo
• Land Securities Group
• Rio Tinto

(left to right) Phoebe Dunn of Square Peg International, David Howie of Rolls-Royce Holdings and keynote speaker Richard Whittington of Said Business School
“Directors and senior managers tend to have only a vague understanding of their companies’ corporate strategies.”

More than 60 delegates, including many from Africa, Australia, the Middle East, North and South America, Turkey and continental Europe, explored key questions with the goal of defining a pathway for the next phase of the SPS’s development.

Seminal works over a long period have shown us that getting strategic leadership right can pay large dividends. Kotter and Heskett (1992) found a sevenfold net income out performance among strategically well-led companies versus others, based on research between 1987 and 1991. Kim and Mauborgne (2005) presented evidence of a tenfold profitability out performance for the strategically astute. Both these works, and many others, show also that maintaining market-leading positions is an onerous task.

The history of the Strategic Planning Society has not been free from its own major ups and downs. It was founded in the UK 45 years ago with pioneering intentions, enjoyed strong success in the 1970s and 1980s, the heyday of strategic planning, but then languished for many years, failing to embrace effectively the wider strategic change, leadership knowledge and practice that evolved from the late 1980s.

At the SPS, a determination has arisen to demonstrate how critical strategic engagement is to long-term business success, 20 years after the likes of Kotter, Pascale and Senge were setting the scene.

This is due not just to a late awakening of the SPS to seminal academic work, but also to long-term working knowledge through which many of the SPS’s leading members and associates can confirm that such theory does work in practice. Moreover, there has been a sense that the major change in the economic environment means the time for strategy to wax strongly again has arrived.

Specialist roles
Evidence at the conference gave a mixed picture of the state of strategy within organisations. Members commonly described how they found in many companies and government departments virtually no specialist strategic support at senior levels – and none at all on the board.

Of course there are exceptions. Companies like BAE Systems in the UK, Daimler Benz in Germany and Intel in the USA have made a large commitment to strategic management throughout their organisations. A delegate from the USA indicated that official data shows that the US government employs no less than 37,000 strategists, with potentially a national total of up to 5 million people directly involved in strategic management overall.

In Europe such an army of strategists is almost unimaginable, but there are signs of growing interest. Sam Bodley-Scott reported Kepner Tregoe’s strategic decision-making courses are seeing a
marked increase in popularity; there is a matching growth in SPS membership, and its LinkedIn group (now 12,000 strong) shows no sign of slowing down.

Mere numbers, however, are misleading. The bigger issue is where the specialists are placed within their organisations, and how far directors and senior executives rely on their expertise – or themselves apply strategists’ disciplines to the issues confronting them. The evidence is not encouraging: surveys and leading academic research reveal that the large majority of directors and senior managers tend to have only a vague – and often conflicting – understanding of their companies’ corporate strategies or value propositions.

The conference evidenced the ‘gap’ SPS had pinpointed for a formal community of strategic managers and leaders to form a professional grouping for the extension and development of strategic thinking, management, development and leadership.

**Membership of the SPS**

Whatever the disciplines and skills required in strategic management, the range of situations where they have to be applied will place exacting demands on any putative professional body, such as the SPS. The sheer diversity of economic environments, strategic options and competitive and organisational structures requires careful consideration of what members are seeking and what SPS should offer. Conversely, to whom should membership be available? Should it be open to all, with some testing of knowledge, skills and experience?

These questions were the subject of much discussion at the conference. Open membership, meaning that anyone who pays the subscription can join, will mean larger numbers and the ability to flex to meet demand. It would avoid the huge investment needed for a closed society: laying down a detailed framework including qualification standards, specifying the associated body of knowledge, and organising training, teaching materials, examinations, certification and accreditation.

But open membership might not necessarily aid the Society’s long-term ambition to build strategic management into a recognised profession like accountancy or law. Closed membership, based on a professionally recognised qualification covering study and real-life experience, offers the expectation of a better salary and security of tenure but also an implied promise of superior performance.

One big snag with the professional aspiration, pointed out by Richard Whittington, professor of strategic management at Saïd, is that, unlike in accountancy or law, many managers deal with strategy as an integral part of their wider responsibilities, while others do nothing but strategy development, but only for a few years as part of their career experience.

Strategy is also highly relevant to entrepreneurs. Take Howard Schultz, founder of the Starbucks chain of coffee shops. In the early 2000s, his title was chairman, president, chief executive officer and chief global strategist. There was some justification for this, since he had built the $3 billion business at a phenomenal pace. But then came the recession, and new ‘strategic managers’ were unable to stop operating profits falling by half in 2008. So entrepreneur Schultz hurried back to set Starbucks on a growth trajectory once more.

**Body of knowledge**

Starbucks will no doubt form an important case in the ongoing teaching of strategic management. How should the SPS be sharing such knowledge and experience in its drive to extend strategic management capability?

A formal body of knowledge and associated case materials for strategy does not exist as it does for the traditional professions. Such authoritative works evolve over time and continue to build up alongside the profession. There was a long discussion about the desirability and viability of developing a formal body of knowledge at this point in strategy’s and the SPS’s evolution. Consensus seemed to recognise that this is a long-term venture.

Ironically, though, strategy people found time is short. Doug Ross, visiting fellow at Kingston Business School in London and a director of Square Peg International, urged speed to address the dearth of strategic planning among large corporates, and to raise the Society’s own profile before competing organisations fill the gap. “Given our limited volunteer resources, our focus should not be on the creation and maintenance of the body of knowledge,” he declared, “we can leave that to the academics.”

Another delegate, Colin Tuckwell, a director of Beyond (Strategic Guidance),
a mentor in strategic leadership with IDDAS and an SPS trustee, sees the lack of strategic development as an opportunity that is being missed by most businesses and needing urgent attention. “The question is, can the SPS help fill this leadership gap? Strategy implementation is 90% of what strategy is all about; we must expand from our planning roots.”

**Active partnerships**

Despite this pressing need for progress, strategy is also a long-term business, which is one good reason why the SPS, whatever route it decides to take, needs to build active partnerships with business schools. Already it’s in negotiation with a dozen or so, notably conference host Said. Peter McNamara of University College, Dublin led a deep discussion on options for evolving business school relationships. In particular he outlined some of the issues in defining which schools when, including accrediting the students of individual schools.

Unfortunately, as Kim Warren of London Business school observed, “none of the business schools’ programmes covers the full extent of strategy” so the SPS may have a central role to play in acting as an “exchange hub”, in addition to tapping the schools’ own knowledge.

Lambros Karavis, a Melbourne-based consultant specialising in strategic management in the Asia-Pacific region, urged the Strategic Planning Society to internationalise itself in step with seeking to professionalise strategy. “India, China, Indonesia and so on, is where growth is going to come from, and the young executives there will go to whoever can give them a piece of paper certifying them as strategists.” The presence of delegates from such a wide geographic area certainly underscored both the major changes in world economic structure and the global interest in strategic management.

The SPS has made initial steps in building business school relationships and establishing international affiliates. In the UK it was seeking to organise Strategy Clubs in a number of UK business schools; the SPS sees the clubs as an important means of fulfilling its charitable remit and objectives. The business schools hosting the clubs benefit equally, as they attract local business figures, school students, alumni and others to discuss strategic issues with guest speakers.

Among the delegates at the conference were representatives of the SPS’s first international affiliates in Brazil, Eire and Turkey whose observations and experience continue to be keenly sought as the SPS’s own ‘business model’ evolves.

**Focus on the achievable**

Other potential allies in building an international strategic management community include the Chicago-based Strategic Management Society. It has adopted an open membership, and organises conferences all over the world. It also boasts 57 fellows, including City University’s Charles Baden-Fuller, Insead’s Yves Doz, McGill’s Henry Mintzberg and Harvard’s Michael Porter.

The SPS has created a similar designation, now with 103 fellowships so far awarded, and applications building. The purpose is to recognise an individual’s enduring contribution to strategy, whether as practitioner, academic or public figure. The SPS realises it has a long way to go. BAE Systems’ head of group strategy, Llyr Jones, counselled assiduous focus on viable, achievable steps.

“Not only do we need to focus our efforts, but the SPS does not have the resources to cover the whole of the territory of strategy at this time. We will need to work with others to find a viable pathway to successfully achieve our goals.” That and the conference’s recognition that “effective delivery is key to strategic success” applying equally to the SPS’s own efforts to build an influential professional body seemed to be the ideas that stamped their seal – both on the conference and on the progress the Society has made since.
We can help you with a little…

… a little more…

… or a whole lot!

Your story is our focus
How important is strategy?
Strategy in some form pervades everyone’s lives, whether they are themselves strategising or are affected by strategic decisions. Every organisation worth its salt has some sort of deliberate strategic intent, which is manifested in a variety of ways: what they say, in their documentation, how they behave, and has implications for other actors such as customers, suppliers and their own staff. The strategy beast is all pervasive – this is one of the reasons why our students can have problems understanding it.

Has strategy become more important amid recent world events such as the Arab Spring?
I think strategy is always important, whatever the circumstances, so I, personally, don’t think any world events make strategy more or less important. However, if there are unusual or extreme world events, the consequences of getting it wrong can be more extreme. Nevertheless, there are still choices to be made in a relatively benign macroeconomic environment, such as the decade from the mid-1990s.

Do you think strategy has been overlooked?
Strategy has not been overlooked by a large number of opinion formers but there was a time, particularly in the long post-second world war period of growth once things had settled down, when organisations freewheeled and were sometimes able to get away with poor decisions.

During the 1960s, for example, diversification was put forward as the cure for all corporate ills. Mergers and acquisitions was one of the methods of diversifying used in many instances, and many resulted in sub-optimal performance. But, because the background circumstances were benign, organisations didn’t necessarily go to the wall. In the current climate, the same bad decision and resulting poor performance may mean the end of the organisation.

How far is there a gap between strategy as practiced in academia and strategy in business?
There is quite a gap: in academia strategy is predominantly a conceptual process and most of what students learn focuses on strategic choice and strategy formulation. Practitioners tend to have a greater emphasis on implementation – although this is recognised as being important in academia intrinsically and theoretically,
nothing like as much time is spent on it. Of course, implementation issues are covered in other types of modules such as marketing, financial management and human resources management so there is quite a lot written about implementation and students learn quite a lot about it. But one of the difficulties is that students, with the exception of some MBA students, don’t have very much ‘real world’ experience so are unable to put things in their place.

A lot of the material is not necessarily remarkably challenging in terms of its intellectual content. At the beginning of a strategy module, undergraduates tend to think: “This is relatively easy.” Then, they often find that they are getting a lot of material that is all over the place – it’s not neat and doesn’t fit into a narrow framework of defined theories. They struggle to fit the pieces together because strategy draws from a wide range of disciplines and all areas of business. What initially appears to be straightforward turns out to be very complex.

How can we move towards closing this gap?
There needs to be a cross-fertilisation between sectors. I work in academia so my responsibility is to get cross-fertilisation from practitioners into academia. It’s not for me to tell practitioners how to do their jobs but clearly they employ academics for consulting purposes from time to time and sometimes want the latest insights into topics.

Academics with practitioner experience find it soon dates, and practitioner experience tends to have a strong organisational flavour from their employer – there are very few people who can survey the world of strategy with authority. I am interested in bringing a variety of practitioners into the classroom to try to learn from their experience.

Practitioners tend to deliver material in a different context – the topic area may not be unusual but the speaker will often take a non-textbook approach.

How do the SPS Strategy Clubs feed into this?
We are very pleased to be in the vanguard of the Strategy Clubs initiative by the SPS. Strategy Clubs provide a formal framework by which we can get people with practitioner experience into the classroom. This is part of professionalising, not only our student experience, but also the strategy subject or discipline, which is in line with the SPS mission. The Strategy Clubs increase the visibility of strategy as a subject and more particularly as a profession and potential occupation.

SPS Associate Memberships also enable our students to take on the practitioner viewpoint, and allows them to become full SPS Members in the future.

What are your thoughts on a new model for strategy as a profession?
It’s fair to say that in academia we’ve for a long time had very strong links with various professional bodies – accountancy and law, human resources and marketing in particular. Students often get exemptions for membership or may even be required to become a member of a certain professional body to further their career.

Strategy has a fairly prominent position in universities’ curricula as a core module in most business and management undergraduate and masters’ programmes but our professional body status has been fairly weak.

Cooperation and cross-fertilisation could help remedy this and give strategy and practitioners a brighter future.

“ The strategy beast is all pervasive – which why students can have problems understanding it. ”

CURRICULUM VITAE
- Born in Birmingham.
- Studied Chemistry at Manchester University before deciding to change to Industrial Economics.
- 1984: took at Manchester University a PhD concerned with the factors influencing the allocation of resources to research and development in the UK chemicals industry 1955–81.
- 1984–86: Worked as a research assistant at UMIST.
- 1986–87: Lectureship at Staffordshire University.
- 1987: Joined Huddersfield University as a lecturer.
- 1990: Became a senior lecturer at Huddersfield University.
- 1995: Became a principal lecturer at Huddersfield University.
- 1996: Became a head of department at Huddersfield University.

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How to stay in pole position

Research based in the highly competitive Formula 1 arena asked the question: are the best leaders people who are experts in the core business of their organisation – those who have ‘walked the walk’? **By Amanda Goodall**

If you had to make a guess about who will win the Abu Dhabi Grand Prix, how might you choose? Using data spanning the entire 60-year history of Formula 1 Championships, economist Dr Ganna Pogrebna and I have found that it has a lot to do with leadership. F1 teams that are led by former drivers or mechanics outperform those who are led by managers or qualified engineers. Additionally, a team leader with ten years of competitive driving experience gives their team a 16% higher chance of performing well in a Grand Prix than a leader with no experience. That is a big effect.

Our research reveals that the best leaders are those who have previously ‘walked the walk’ – individuals who are experts in the core business of their organisation.

**Why do leaders matter?**
So, leaders influence performance. This seems obvious, right? Maybe, but proving it is a lot harder. There are thousands of books on leadership, most based on anecdote not evidence – usually one person’s stoic story. Individual accounts of leadership may offer entertaining bedtime reading but they can rarely, if ever, be generalised to other organisations, let alone other sectors.

Why has it been so hard to prove that leaders make a difference? This problem is related to the difficulties we have in trying to identify the specific effect of leaders on organisational performance, as opposed to all the other stuff (such as strategy, the economy and the market). If we were to employ the same approach that is used in medicine, we might randomly assign leaders to organisations and then assess the performance outcomes. In social science research this, of course, is not possible. So we try to do the next best thing.

In our study of F1 we looked at leaders over the sport’s history and tried to measure changes in leadership against change in performance, that is the number of Grand Prix wins and podiums. In our analyses, we account for other influences by controlling for a number of intervening factors – for example, every race year each F1 constructor and the number of cars entered into each Grand Prix.

We also collected detailed background information on every team principal of all F1 constructor teams for the same 60-year period. Based on the leader characteristics we identified, each principal was classified into one of four types: those who were either former drivers, former managers, mechanics or engineers (with degrees).
Formula 1 background
In F1, each constructor team competes to win the championship by entering two cars in consecutive races. The goal is to maximise the number of points gained – points are awarded based on the position of each car at the end of the race.

Leaders of constructor teams in F1 have to operate in a skilled and stressful environment, which requires rapid decision-making. The principal is responsible for the day-to-day running of the team. Some leaders, for example Frank Williams of Williams or Tony Fernandes of Team Lotus, own and run their own teams. Owner-leaders have extensive powers.

In other cases, principals are hired by owners to manage their teams; such is the relationship between the beverage company Red Bull and principal Christian Horner. The areas where principals make the decisions include driver choice, technical issues such as how the car is set up, pit strategy, which gearbox or engine is used, and financial issues, such as sponsorship or team wages.

“It is hard to identify the specific effect of leaders on organisational performance.”
**Four types of leader**

Managers tend to have been successful business people or CEOs who move to F1 from a different, often unrelated, industry. Manager-leaders do not have experience or education in car making or mechanical engineering or a related field. They are also more likely to become involved in the industry relatively late in their careers. One of the more controversial examples is former Renault F1 team manager Flavio Briatore.

Conversely, drivers tend to have been involved in competitive racing from an early age. Such leaders often start as go-kart racers either in their childhood or teenage years and then move to professional racing by their early 20s.

Often drivers are familiar with the technical side of car making as well as with the mechanical aspects of repair, even though they do not complete degrees in mechanical engineering or a related field. Successful driver-leaders include Jean Todt (Ferrari), Cesare Fiorio (Ferrari, Ligier, Minardi) and, recently, Red Bull’s Christian Horner. Red Bull Racing won both the Constructors’ Championships and the Drivers’ Championships in 2010 and 2011.

Mechanics have practical technical experience in car making and mechanical repair, but have not driven competitively, and have not obtained a degree in mechanical engineering or a related field. Leaders of this type may start being involved in car mechanics in their teens by working at a family or friends’ workshop.

However, although they gain mechanical experience from an early age, mechanics typically become exposed to a competitive racing environment later than drivers. For example, Henri Julien, of small French constructor Automobiles Gonfaronnaises Sportives, started work as a mechanic in his 20s but did not build his first racing car until his mid-30s.

Finally, engineers are highly skilled professionals and are defined in our study as those with degrees in mechanical engineering. Since they devote several years of their life to obtaining education, they become exposed to the competitive racing environment relatively late compared with drivers and mechanics. For example, Tony Purnell (Jaguar, Red Bull) had a lengthy academic career before moving to F1 racing sport at the age of 44.

In our dataset there were 42 managers (29.1%), 35 drivers (25.4%), 32 mechanics (22.4%) and 34 engineers (23.1%). In our analyses we examined the performance of each leader in every F1 Grand Prix (a total of 18,000 cars), between 1950 and 2011.

**Who makes the best F1 leaders?**

To try to understand whether constructor teams’ performance in F1 depends on leader types, we first looked to see what the raw data was telling us. As can be seen in Figure 1, these reveal that podium frequency (first, second or third place) and average wins frequency were greater among teams headed by drivers and mechanics than by managers or engineers.

Drivers were associated with a winning team in 7% of races, and they garnered a podium position in 17% of races. The performance of teams led by mechanics was similar, winning 6% of the time, and getting on the podium 16% of the time.

Teams headed by leaders of a manager type obtained worse results: they won 3% of races and obtained podium positions in 12% of races. Constructor teams led by engineers fared even less well: 3% wins and...
8% podiums. Drivers and mechanics also had higher average pole position frequency (finishing first in qualifying, and, as a result, starting the race at the very front of the grid) and average fastest lap (the fastest time in the race on any given lap). Former drivers and mechanics win twice as often as other kinds of F1 leaders.

Next we wanted to discover whether the patterns in Figure 1 are replicated using statistical tests that factor in our control variables (for example, type of race circuit, the fame of the constructor team, the year of the race and the number of cars in each competition). To do this we used econometric methods to analyse the data. We asked the question: when other confounding factors are controlled for, can we explain F1 wins and podium positions by the characteristics of the team principals?

Our tests revealed that, when other influences are accounted for, the results remain the same: constructor teams led by drivers and mechanics are more successful than teams headed by managers and engineers. Inclusion of each constructor in the equations has the biggest effect, which marginally reduces the impact of leaders.

This is because constructors’ fame and expertise makes a difference. For example, Ferrari, the oldest team in F1 with the most recognised brand, has won 16 World Constructors Championships, more than any other. Notably, if we look only at the history of Ferrari, we can see (in Figure 2), that the most successful team principal was a former driver – Jean Todt.

**The effect of a long driving career**

Our final task was to examine whether the amount of driving experience makes a difference to the performance of teams. To do this we identified those principals who had ever had competitive driving experience.

Our results showed that time spent as a driver has a big effect on future performance as a leader. To give a feel for the size of effects, it is helpful to consider what happens when a leader has ten years of experience instead of none. This was associated with a 16 percentage point increase in probability of the leader’s team gaining a podium position – after controlling for circuit, race year, constructors and number of cars qualified. The extra probability of gaining a podium
“Team principals who have a deep understanding of the core business are potentially better placed to identify strategic opportunities.”

position when a driver has had a decade’s experience of competitive racing is about one in seven.

Why do drivers and mechanics make better F1 leaders?
We have established that there is a strong association between leaders having been a driver or mechanic and winning in F1, compared with leaders who were principally managers or engineers. We also found that the more years spent as a racing driver, the better the results for those who become team heads. Why might this be?

Former drivers and mechanics may become better leaders because they are familiar with all aspects of Formula 1, which may lead to a better strategic vision. From an early age, such leaders develop technical knowledge about the underlying activity of Grand Prix racing. This means that they have the opportunity to acquire extensive experience in formulating driving tactics and combine it with a good understanding of mechanics. Leaders with high levels of expertise and experience may also communicate more effectively with all members of the racing team, which is likely to embed team strategy. In short, team principals who have a deep understanding of the core business activities are potentially better placed to identify strategic opportunities and challenges.

Former drivers and mechanics may command greater respect because of their proven track record; they may also be viewed as more credible since they have ‘walked the walk’. Having been ‘one of them’ may signal that a leader understands the culture, values, incentives and motivations of their F1 team colleagues. In addition, we might expect driver-leaders to act as role models within the team and be more likely to coax high performance and know how to manage the drivers’ egos.

We have shown that drivers with the most years of racing competitively went on to be the best-performing leaders; arguably, only successful drivers continue to race long enough to amass this experience. Apart from the credibility this gives them as team principal, their proven excellence will undoubtedly inspire the people who work for them, and possibly also push their drivers and other team members further in their own quest for quality. In addition, such leaders may be well placed to attract other outstanding experts to the team.

Mechanics and drivers who have spent many years in F1 may also be more likely to create the right work environment for other experts and core workers because they understand what conditions are required. For example, experts may be less invested in bureaucracy than managers.

What this tells us about leadership
In recent years, there has been a trend to promote into leadership positions individuals who are skilled managers, but who do not necessarily have either a background in the sector concerned or hands-on experience of the core business activity. Similarly, there is evidence that major firms have moved away from hiring CEOs with technical expertise towards the selection of leaders who are generalists. Our research found that in contrast to recent trends, it is those who are experts in the core business of the organisation who make the best leaders.
Tired of agencies telling you what you need to do?

Keen to find one that actually helps you do it?

Why not get in touch.
Board must not play cameo role

As big business setbacks push corporate governance back up the agenda, the poor quality of information provided to board members and other key personnel is being criticised for making it hard for non-executive directors to carry out their duties properly. By Jennifer Sundberg

The summer is traditionally the season when Hollywood wheels out its blockbusters. This summer was no exception, with The Dark Knight Rises grossing the kind of recession-busting figures that most blue chip companies would be spitting popcorn over. But there are signs that all is not well behind the scenes: from Total Recall, a reboot of the Arnold Schwarzenegger classic, to The Expendables 2, which waved a desperate defibrillator at the careers of Arnie, Sly Stallone, Bruce Willis and even Chuck Norris, it seems Hollywood execs are stuck rehashing former glories.

But there is good news for fans of original drama: 2012 was a summer in which off-screen heroes and villains proved far more compelling. Even as the Olympians were making people proud to be British again, a far darker narrative was unfolding down the road in the capital’s boardrooms. In what has been dubbed London’s ‘summer of scandal’, G4S, JP Morgan and Barclays were brought into disrepute, prompting a chorus of boos directed at massive corporate structures.

The result: corporate governance is back under the microscope. The prevailing view is that people who sit on the boards of these companies have failed in their role as stewards and supervisors, and if we are to avoid a repeat performance, we need to be far more careful about who we appoint.

Or do we? The conclusion was that our boards failed because the directors who sat on them may only have an appealing narrative, but if you swap these players for a fresh batch of business starlets, you may tackle the symptom rather than the cause.

Even A-listers need a good script

Clearly, there have been dubious board appointments. As the UK’s City minister, Lord Myners, observed: “The typical bank board resembles a retirement home for the great and the good.” There is a clear need for a diverse group of non-executives with the right skills, experience and attitude. But this is not enough.

Even A-list board members struggle if they don’t know their lines: many boards don’t have access to the information they need to do the job. Information risk – the risk of ‘not knowing’ – is arguably the biggest challenge for any board. It wasn’t that the boards of JP Morgan, G4S and Barclays displayed poor judgement in resolving their problems; they simply didn’t realise they had a problem.
A survey by Korn/Ferry Whitehead Mann and KPMG earlier this year revealed that one in five non-executive directors felt out of depth in the boardroom because of inadequate briefing. It’s easy to see why.

The main source of information for most non-executives is the board pack, and regardless of sector or size of company, these invariably share flaws: they are too big, running to hundreds of pages every month; they are too narrow in scope, being heavily weighted towards backward-looking financials; and they are so turgid in style that they are “an obstacle to clear thinking”, to quote one seasoned director.

Non-executive directors are not superhuman. They face the phenomenal task of supervising and stewarding the business within just a handful of days per month. But this would be a whole lot easier if they were given the right tools for the job.

A common excuse is that management is focused on running the business, not polishing reports. But surely management needs access to a source of high-quality information if they are to prioritise their own time? Poor-quality board packs can be symptomatic of a management team without a firm grip on the business.

And beware any company that claims it is just too big and complex for information to be distilled into a manageable document. Directors openly acknowledge that they spend roughly three hours reading board packs, so if it’s longer than 100 pages, you have to assume it just isn’t going to be read. If this really can’t be done, the warning bell should sound that the business is just too complex to govern and manage.

**Leader of the board pack**

A well-configured board pack is short enough to be read cover to cover on a Sunday afternoon, and allows the board to see how the business has fared in matters both financial and non-financial, as well as how well their agreed strategy is working. Rather than delivering a weighty good-news story, the pack should provide clear, unvarnished and concise insight that answers the ‘so what?’

But no matter how good, the board papers will still only address Donald Rumsfeld’s notorious ‘known knowns’. So what can be done about those risks (and opportunities) that management, as well as the board, may be blind to?

The UK’s Cass Business School produced a seminal piece of research exploring the near-death experiences of 23 companies, from AIG to BP and Cadbury Schweppes, and discovered that the source of their problems was well known within the organisation, “but unknown to its leadership”. Given the simplicity of web-based surveys, we’d recommend monthly polls of a cross-section of your workforce to help them to flag up risks and opportunities unseen by management and the board.

**Behind the scenes**

Of course, neither senior management nor the board can know everything. Ultimately, the only real defence against the ‘unknown unknowns’ is a healthy organisational culture. It’s this that determines how your employees behave when the rule book runs out and judgement comes into play.

Adding a couple of questions about culture to a regular employee survey can be fruitful, but to gauge the temperature of the firm, directors need to leave the confines of the boardroom and get out into the organisation. Executives and non-executives need to experience the business for themselves and speak to the people that work in it. They should not rely on board meetings and briefing packs alone.

Hollywood may get away with dodgy remakes of *Spiderman*, *Robocop* and even *Dirty Dancing*. But the world won’t sit through another corporate tragedy. Luckily, it’s not too late to change the script. ■

“In what has been dubbed London’s ‘summer of scandal’, G4S, JP Morgan and Barclays were brought into disrepute, prompting a chorus of boos directed at massive corporate structures.”
As markets in Europe and the US continue their struggle to revive five years after the financial crisis unfolded, it’s easy to be pessimistic. But there is a world out there where GDP grew at an average of almost 6% in real terms last year – in what used to be called emerging markets. These include, roughly in order of importance, economies such as China, India, Brazil, Indonesia, Russia, Mexico, South Africa, Turkey and Egypt.

These markets are no longer just emerging. They’ve emerged. They overtook the rest of the world as the biggest importers of goods in 2012. By 2014, China alone will surpass the US as the world’s biggest importer and promises to account for almost 30% of total world growth over the next decade.

In the quest to grab this opportunity it is sometimes easy to forget that winning a share of the emerging market boom requires a lot more than just showing up with the proverbial better mousetrap and offering it to eager customers. Succeeding in new growth markets requires companies to adapt their familiar strategies in increasingly subtle and sophisticated ways.

Adaptation 2.0
Strategists now have well-developed tools and techniques to adapt to differences in measurable aspects of a foreign market. We know how to assess and adapt to variations in things like per-capita income, growth rates, aspects of buyer behaviour or the peculiarities of local distribution systems.

Today most companies won’t fall into the obvious traps that caught out pioneers decades ago, when Carrefour routinely cloned expensive French bakeries in its Chinese stores to produce fresh baguettes that few customers wanted, or Wal-Mart famously stocked its first Mexican store

Companies need to be able to differentiate themselves by how well they can adapt their strategies to the needs of emerging markets, but this requires a step change in how they respond to the more subtle aspects of the local environment. By Peter Williamson

“Companies must focus innovation efforts on the realities of the local competitive environment.”
with a range of US 115-volt appliances in a country where power comes through the sockets at 220 volts.

But as international trade and foreign direct investment have continued to grow faster than world GDP for decades, and national champions have strengthened their capabilities, competition in growth markets has moved on to a new plane.

There is a rich menu of offerings from importers, well-established subsidiaries of multinationals and formidable local players benefiting from ‘home team’ advantages, so customers can now demand a much better ‘fit’ with their local needs and preferences.

Governments can be much more choosy about the terms on which they welcome foreign investors, looking not just for capital, but state-of-the art technology and close alignment with national development priorities. Potential local partners, meanwhile, are increasingly looking for arrangements that involve extensive sharing of intellectual property (IP) and joint R&D, not simply the supplier-distributor relationships of many old-style joint ventures.

As a result of these changes, the adaptation stakes have risen dramatically. In this new world of ‘Adaptation 2.0’, companies need to be able to differentiate themselves by how well they can adapt their strategies to things that are much more difficult to get their hands around and that cannot be quantified; adaptation to what is sometimes summed up as ‘institutional context’.

There are three areas in which it is particularly important to be able to adapt:
- the local innovation system
- lack of infrastructure
- local drivers of corporate reputation.

**Adapting to the local innovation system**

Adaptation to the local innovation system starts with adjusting the focus of your innovation efforts to fit the realities of the local competitive environment. In Europe and the US, many companies equate innovation with technological breakthroughs or game-changing new product designs. But in fast-moving, emerging markets full of value-conscious customers, many of the most successful innovations will be those that improve value for money, can be brought to fruition with low investment and have fast payback.

Often, the lion’s share of the value of new ideas, products, services and processes is won by those who find innovative ways to commercialise, standardise and re-engineer inventions for the mass market, offering ‘more for less for more’.

So rather than simply trying to emulate the approaches to innovation that are successful in established economies, adaptation to emerging markets might require broadening the definition of innovation beyond loading on more features and functions that entail the customer paying more. The focus probably needs to be shifted to cost innovation (reducing cost while maintaining quality), application innovation (creating new applications for an existing product or technology), and business model innovation (innovative redesign of the business model by which added value is created and delivered to customers).

Siemens Building Technologies, for example, is a leader in ‘building automation’ such as fire detection systems – where it is usually at the top end of the market. But it found that in China the largest and fastest-growing segment was ‘value-for-money’ detection systems with prices 75% below the top end.
Siemens’ adaptation strategy was to shift towards cost innovation and re-engineering its business model for local conditions. It relocated development of value-for-money products to China to access local cost innovation capabilities, recruited dedicated Chinese partner-distributors with networks and knowledge of secondary cities, and created the Siemens Cerberus-Eco brand aimed at this segment. Having mastered these adaptation challenges to become a strong player in China’s ‘value’ market, it entered Brazil, Indonesia and Vietnam using similar products and business models.

Oxford-based Green Biologics, meanwhile, adapted to the Chinese innovation system by focusing its efforts on scaling up advanced microbial technology for the production of renewable chemicals and biofuels invented in Britain. Identifying China’s massive and fast-moving market as the perfect environment for rapidly taking new technology into the mass-market, it entered Brazil, Indonesia and Vietnam using similar products and business models.

Adapting to poor infrastructure

In emerging and developing markets the infrastructure necessary to support your business is likely to be incomplete. Hard infrastructure deficiencies, such as poor transportation or electricity shortages, are pretty obvious. But more difficult to identify and deal with are deficiencies in the soft infrastructure that is necessary to oil the wheels of commerce: fuzzy rules and regulations that are open to different interpretations; legal systems that dispense erratic judgements or where cases drag on for years; taxation policies that seem to be made up by local inspectors as they please.

In many cases, the pace of development in rapidly growing markets outstrips the ability of the machinery of regulation and policy making to keep pace, with the result that there are no rules or policies at all. These gaps are often termed ‘institutional voids’ but to companies used to asking for black and white clarity, they can appear more like ‘black holes’. A classic case is the private funds management industry in China, which amassed assets of $85 billion under management during a time in the early 2000s when, according to the regulations, it didn’t exist. The rules subsequently had to be ‘back-fitted’ to acknowledge and regulate it.

Adapting to these types of local institutional voids often requires firms to go beyond their traditional business focus and relax their notions of non-core activities. It may be necessary to invest in the bonds of the local electricity generator to ensure continuity of supply. When

“It’s harder to deal with fuzzy rules and regulations, erratic legal systems and taxation policies that seem to be made up by local inspectors.”
McDonald’s went to Russia, it had to build an entire potato supply chain; today Russia is one of its most profitable units.

But it may also be essential to go beyond these kinds of initiatives and invest in working intensively with governments to assist in fashioning the regulatory structure and policy frameworks that will govern your industry in a country with gaping holes in its soft infrastructure. Obviously self-interest needs to be balanced with the national good, treading a fine line when engaging in institution-building activities in emerging markets. But a reluctance to recognise that this is an important part of Adaptation 2.0 can be costly.

Recent research on foreign investment in Africa, for example, suggests that Chinese enterprises are much more willing than many of their Western counterparts to invest in developing hard and soft infrastructure that will complement and enable their core business operations. Although some of these Chinese investments remain controversial, their rates of growth and margins tend to be higher and sovereign risk better controlled as a result of adapting more proactively to the need to fill local institutional voids.

Adapting to local drivers of corporate reputation

In developed economies, initiatives to build a strong corporate reputation for integrity tend to focus on increased transparency, independent governance systems, and a wide range of environmental and corporate and social responsibility (CSR) activities. But to be effective in emerging markets, the tools for building corporate reputation often need to be adapted significantly, even to the point of rethinking what we mean by corporate reputation and with whom we would like our company to be held in high esteem.

It is commonly accepted in the West, for example, that corporate reputation is determined by the views of a wide group of stakeholders including customers, employees, suppliers, shareholders, alliance partners and even neighbours. But survey research in China suggests that in the current Chinese environment, it is customers that are by far the most important target and influencers of corporate reputation.

Assuring reliable product quality, excellent after-sales service and respectful treatment of customers are the key tools for building corporate reputation. The reputation of a company in China is also heavily influenced by the company it keeps, so the network of relationships (or guanxi) of its senior management, along with endorsement from the government, have important positive impacts on how the company perceived.

So a complex structure of communications strategies, publications designed to increase transparency, codes of practice and CSR initiatives may be of limited use in improving corporate reputation in emerging markets. Instead, strategies to build reputation may need to be adapted to focus on product quality and reliability and customer service, as well as the standing and personal behaviour of senior management.

Rethinking adaptation

It’s clearly no longer enough to think of adaptation to local markets simply in terms of presentation, marketing, products, pricing or distribution systems. Today’s competitive environment – where emerging-market consumers already enjoy offerings from local companies and subsidiaries of multinationals and growing openness to imports – requires a step change in how well you adapt your offering to the more subtle aspects of the local environment.

The adaptation imperative now demands strategies that can respond effectively to differences in the local institutional environment – priorities for innovation, areas where infrastructure is inadequate and particular drivers of corporate reputation. The potential for growth in emerging markets is both real and resilient but it is not simply there for the taking. Rising to the challenge of Adaptation 2.0 will be critical to winning your share.

ABOUT THE AUTHOR

Peter Williamson is honorary professor of international management at the University of Cambridge Judge Business School.

He is a member of the School’s Strategy & International Business subject group, and has extensive international experience as a business strategy consultant.

+44 (0)1223 764 229
p.williamson@jbs.cam.ac.uk
Too many companies view strategy as something that is done in a darkened room by a small number of senior personnel – something that takes place at pre-programmed times in the business calendar. It could be the annual planning round, the five-year strategy development cycle, yearly reviews of markets and competitors, or the acquisition of new businesses and market share.

Those things are important but they will probably lack impact unless they are backed up by clear delivery frameworks and, more importantly, by a culture of strategic thinking to help set, maintain and sometimes change pace and direction.

So, on a practical level, how can this kind of culture in a business be created? How can strategy be made a way of life – something that is not isolated, temporary and narrow, but something that guides not only the long-term aspirations of a company but also the way it operates? How can a long-term big picture, at the heart of how a company thinks, be kept in focus all the time?

**Choose to be different**

First, it is essential to spend time understanding what strategy means in a business, and why it should be important. It means different things to different people, so an agreed definition must be sought.

Michael Porter offers a concise summary: strategy is about choices and trade-offs; it’s about deliberately choosing to be different. There’s a fundamental distinction between strategy and operational effectiveness.

This, of course, is not easy. Institutional shareholders are nowadays looking for faster returns on their investment, and quarterly reporting does nothing to help businesses keep hold of the long-term view. In chasing quick returns, there is a risk of becoming a slave to the short term, with huge risks for the future of the business.

Jack Welch, former CEO and president of GE, said: “If GE’s strategy of investment in China is wrong, it represents a loss of a billion dollars, perhaps a couple of billion dollars. If it is right, it is the future of this company for the next century.”

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**Strategy as a way of life**

The strategist’s role should be to help shape a business so that insight is seen as the platform for strategic thinking and strategy development across every part of the company. **By Paul Harris**
Strategy is the outcome, the impact or the change that is being sought.

Many businesses set a strategy at a point in time – from then on it all becomes tactical. Strategy as a way of life means tactics will constantly change and adapt to new circumstances and new thinking. The context of operations, the speed of the market, the likely changes to come, regulatory or policy trends and the current culture of the company – these are all important factors.

Should strategy be devolved to business units or specific teams, or should it be co-ordinated at the centre in close liaison with the CEO and the board? How will specific strategies be pulled together and delivered, and how do they link to other plans and programmes? What happens when a strategy has been delivered, or is clearly failing?

Being strategic doesn’t mean being able to craft a beautiful strategic plan – although this will help – but rather to have the ability to step back and look at things from a broader perspective, from a longer time horizon, or seeing patterns and relationships, not just specific events or data points.

**Data-driven insight**

So, once it is clear what strategy means for the business, and that there is a commitment to ‘being strategic’, it is essential to go to the data.

However, the important thing when trying to instil a culture of strategic thinking is to be clear how insight can be generated from data, and how this will form the basis of future thinking.

Data alone, without analysis and insight, is almost useless. In fact, data can be positively misleading and dangerous. Too many people jump to conclusions using raw, misunderstood or partial data.

It is vital to assess how the approach to data, research and analysis has been restructured. Foresight, horizon scanning and scenario modelling are among the many issues that can be part of the rich body of information and data that informs strategic thinking. This all also represents good risk management.

Of course, it is also important to focus on avoiding duplication of effort, wasted expense and meaningless outputs. This should exert a real influence on the strategic planning process, which, in turn, makes annual business planning much more straightforward.

Strategy and strategic thinking should be combined with a robust process for generating and using insights. What else can help embed strategy as a way of life?

**Get the culture right**

Finally, and perhaps most significantly, there is the issue of culture. In other words, the way things are done in a company – the prevailing wisdom, the attitude and behaviours.

Getting a whole company to adopt strategy as a way of life is a major challenge. Middle and senior managers are often assessed and rewarded through valued and understood as a key driver of performance; aligning strategic thinking with every aspect of the business.

4. Focusing on the outcomes of being more strategic, rather than merely having a strategy.

As Einstein observed: “Logic will get you from A to B. Imagination will take you everywhere.”
“What if performance targets assessed contribution to long-term vision, strategy and objectives?”

performance targets, and these usually drive short-term thinking: “If I deliver this project, meet that deadline or resolve this operational problem, I’ll get my bonus.”

What if there were a way to assess people by their contribution to long-term vision, strategy and objectives as well as in-year performance? Could they be encouraged to lift their heads and look to the horizon rather than the road in front of them, so they could help develop strategy and make the company more agile?

A new responsibility

The strategist’s role should be to help shape a business so that insight is seen as the platform for company-wide strategic thinking and strategy development. This will be helped immeasurably by a strategic plan that resonates with and is understood by all employees, not just the board.

We might need to spend time with business unit heads or functional directors and help them to understand how accurate and insightful data and intelligence might change the way they think about everything. Too many companies have wonderful plans that do not align to their strategy – so they begin to pull the business apart.

The real end-game

As Adam Brandenburger and Barry Nalebuff said: “Successful business strategy is about actively shaping the game you play, not just playing the game you find.” Of course, a strategy will need to evolve over time and a business must be able to flex and change in line with emerging trends, challenges or opportunities.

Strategy is not the be-all and end-all, but rather a key part of the overall process of running a successful business. It requires plans to achieve continuous delivery and improvement – but it is only by having them all working in the same direction, by being strategic, that a company can gain genuine change.

A tale of three strategies

There are high-profile companies who have got it right – well almost.

BP

Lord Brown, when CEO of BP, realised that just being an oil company was risky in the long term. The science of climate change and peak oil was becoming accepted, and the consequent political and legislative changes would be significant. So he made a strategic change to become an energy company. This would allow a shift from oil production to all sorts of energy creation and efficiency. ‘Beyond Petroleum’ was the rather good strapline. But what happened when Lord Brown left the company after claims about his personal life? It shifted back to focus predominantly on oil again. This, therefore, was not a cultural change, was not aligned throughout BP, but was instead a hollow strategy, and ultimately meaningless.

Walmart

Lee Scott, the former CEO of Walmart, made a wonderful speech in 2005, in which he explained in detail how a more strategic approach to every aspect of the company’s thinking would benefit everyone – staff, customers, investors and society at large.

He talked about their customers, suppliers, their approach to climate change and energy, their products, reward structure and approach to healthcare, and their impact on communities. He made a huge commitment to change the company from the bottom up. Michael Duke is now the president and CEO, yet the commitment continues and arguably is stronger. This is embedding strategy within the culture of an organisation. It is a real strategy with roots.

InterfaceFLOR

InterfaceFLOR is one of the largest makers of industrial carpet in the world. Its founder/owner/chairman, Ray Anderson, ‘got’ sustainability several years ago and set the company on a journey to zero waste and zero carbon. He changed the business model from selling to leasing carpet.

That gave the company the incentive to design and make carpets differently – for longevity and recyclability. He died in 2011, but the company has stayed on course and is making more money than ever because of course it is now incredibly efficient.

Anderson saw patterns and possibilities that others didn’t, and, crucially, was able to instil this way of thinking throughout his organisation so that success became a habit.
are pleased to provide an open invitation to you, your family, and friends to a free day at the

2013 Square Peg Polo Challenge

Sunday, 7th July

Time
Picnicking will commence at noon and the play will continue throughout the afternoon. The polo should be finished by around 1700.

Location
Sussex Polo Club: www.sussexpolo.co.uk The club is situated on the Surrey/Sussex border in the picturesque village of Rowfant just 8 miles from Gatwick.

Square Peg are business consultants focussed on the people side of change. Our clients include some of the world’s largest brands, in the eight years since our foundation, we’ve supported clients in putting strategy into action in over 20 countries. We help leaders and their organisations go through transitions and deal with events that demand fast, effective change by providing the ‘integrating force’ between strategy leadership and people.

RSVP
charlotte.bm@squarepeg.com or +44(0)7990825561

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For further information please contact
James Carnegie-Brown on +44 (0)20 7610 6140 or
jcb@carnegieorr.co.uk