What is Strategic Thinking?

By Rich Horwath

Do you *get it*? Translation: Are you strategic? How often have you overheard a group talking about a leader and saying, “She/he just doesn’t get it”? Do they say that about you?

Well, are you tactical or strategic? Does it even matter? A recent study conducted by the *Wall Street Journal* of corporate human resources and leadership development executives identified the top 5 executive skills sought by organizations:

1. ***Strategic thinking***
2. Ability to work across functions
3. Ability to drive results
4. General leadership
5. Core financial understanding

Recent research by authors Carroll and Mui underscore the importance of strategic thinking at the organizational level as well. The authors studied 750 bankruptcies of companies with at least $500 million in assets in the last quarter before bankruptcy from 1981 – 2005. Analysis revealed that the #1 cause of bankruptcy in nearly 50% of the cases was bad strategy. In most instances, the avoidable situations resulted from poor initial strategies and not incompetent execution. If the leaders at the various levels of your organization can’t think strategically today, you may not have a business tomorrow.

So, yes, the ability to think strategically is essential for individuals and organizations. The real question is how can we continually hone our strategic thinking skills in order to thrive in today’s turbulent economic times?

The fact is most managers are now required to be more successful with fewer resources. All managers have resources (time, talent and capital) to varying degrees within their organizations. So, technically, all managers are strategists. The reality, however, is that not all managers are good strategists. Herein lies the pearl of great opportunity: the deeper you can dive into the business and resurface with strategic insights, the more valuable you’ll become to your organization. Effective resource allocation drives profitability (more resources invested in the right activities) and productivity (fewer resources invested in the wrong activities). The result is a high-performance organization in which all levels of management are encouraged and equipped to shape its strategic direction.

Strategic thinking is defined as the generation and application of business insights on a continual basis to achieve competitive advantage. Strategic thinking is different than strategic planning. Strategic planning is the channeling of business insights into an action plan to achieve goals and objectives. A key distinction between strategic thinking and strategic planning is that the former occurs on a regular basis, as part of our daily activities, while the latter occurs periodically (quarterly, semi-annually or annually). Unlike the additional work that is created by the process of strategic planning, we can understand strategic thinking as using a new lens to view the business. It's not about adding more work. It's about enhancing the view of the work and improving one's ability to perform it.

You've likely noticed during your daily encounters with bosses, colleagues, direct reports, customers, suppliers, and other individuals that strategic thinking comes in varying degrees, ranging from brilliant to nonexistent. To hone in on one's ability to think strategically, I have taken the results of research I conducted among senior managers from 154 companies and have identified four types of strategic thinkers. These will help you better understand how to think strategically and will give you insight into individuals in your organization. Two criteria to consider as you evaluate an individual's ability to provide strategic insight are the "Impact of Insights" and the "Frequency of Insights."

Using the analogy of underwater diving, there are four types of strategic thinkers. The first type is the **Beach Bums**. Like a beach bum, this manager mentally lounges around and doesn't really contribute any insights to the business. The second type of strategic thinker is the **Snorkeler.** This type of manager skims the surface of issues. They're the first one to wave their hand in the air and say, "We have a problem" but don't offer any potential solutions. The third type of strategic thinker is the **Scuba Diver.** Like a scuba diver, when these managers are equipped with the right tools and instruction, they can come up with strategic insights. The final type of strategic thinker is the **Free Diver.** A free diver can dive underwater to depths of 800 feet on a single breath. These managers generate new and impactful ideas for the business on a regular basis. The research shows **only three out of every ten managers** are highly strategic, or at the Free Diver level.

The reality is most people can't hold their breadth for more than one minute. But, the world record for a free diver holding his breadth is 11 minutes and 35 seconds! So why is there such a big difference? Free divers have **learned** and **practiced** the key breathing techniques. They've learned how to use their resource, oxygen, more effectively than the rest of us. In business, resources consist of time, people and money. Strategic thinking is how effectively you use these resources relative to the competition in serving customers.

At first blush, it would appear that the only things standing in a manager's way of becoming a Free Diver are adequate knowledge and tools to think strategically on a regular basis. While these do account for a large portion of the cases, a subtler reason also exists. Strategic thinking, and the actions taken to follow through on it, requires an appetite for risk. Strategy calls for focus and the trade-offs that inherently follow, but many managers decide they would rather play it safe. In most organizations, sins of commission—taking a risk and failing—are punished much more harshly than sins of omission—not taking a risk and missing out on a great opportunity. With both political (your reputation within the company) and career (not wanting to jeopardize your next promotion) ramifications to consider, many managers consciously opt out of strategic thinking. And that's a shame. As Roberto Goizueta, the successful former CEO of Coca-Cola, points out: "If you take risks, you may still fail. If you do not take risks, you will surely fail. The greatest risk of all is to do nothing."

To maximize your resources and profitably grow the business on a consistent basis, there are three disciplines of strategic thinking you can develop to continually ground your business in solid strategy:

1. Acumen: generating key business insights.
2. Allocation: focusing resources through trade-offs.
3. Action: executing strategy to achieve goals.

Discipline #1: Acumen

One of the interesting paradoxes of strategy is that in order to elevate one's thinking to see "the big picture," one must first dive below the surface of the issues to uncover insight. A strategic insight is a new idea that combines two or more pieces of information to affect the overall success of the business and lead to competitive advantage. An iceberg illustrates a universal phenomenon when it comes to insights. If the iceberg represents the body of insights for a particular market, all too often companies battle one another using the insights represented by the tip of the iceberg. Above the surface of the water and in plain sight for everyone, these insights require no extra effort to acquire, and offer the path of least resistance to those too lazy to do any real thinking. Since they are readily available to the entire market, they quickly lose value when it comes to developing a strategy steeped in the differentiation required to gain competitive advantage.

Hidden below the surface are insights represented by the largest portion of the iceberg. The large size of the underwater portion doesn't indicate a large number of insights. Instead, this larger portion indicates the greater effect of these insights on the business if they are unleashed.

Acumen Question: What is the key insight driving this initiative, project or activity?

Discipline #2: Allocation

While it's one thing to have a neatly written strategy on paper, the truth is the actual or realized strategy of an organization is a result of the resource allocation decisions made by managers each day. Therefore, it is critical to have a firm understanding of resource allocation and how to maximize its potential for your organization. With multi-billion dollar companies such as United Airlines and General Motors going through bankruptcy, it's obvious in today's market that having the *most* resources guarantees nothing. It's how we *allocate* resources that truly matters.

Once the insights have been generated through the Acumen discipline, one has the key ingredient in making resource allocation decisions. The definition of strategy begins with "The intelligent allocation of limited resources…". Resource allocation is at the core of strategy. Discussions of strategy boil down to how to allocate limited resources to maximize business potential.
Allocation Question: What trade-offs will I make to focus resources?

Discipline #3: Action
It's often assumed that once a sound strategy has been formulated, the execution of that strategy will take care of itself. Research seems to indicate otherwise. A survey of more than 400 companies published in *Training & Development Magazine* showed 49 percent of business leaders report a gap between their organization's ability to articulate a strategic vision and their effectiveness in executing that vision. Additionally, 64 percent of executives did not believe their organization had the ability to close that gap. The effective action or execution of strategy involves the discipline to focus on the important issues, not the urgent ones filling up our email In Box.
Action Question: What actions can I take to achieve advantage?

As you build these three disciplines of strategic thinking into your mindset and behavior, there are three common traps to avoid:

Trap #1: Anchors
In making decisions, the mind tends to give initial information or impressions a disproportionate amount of weight. This tendency is referred to as an "anchor." The anchor jades the decision-making process because it starts the process at an artificially high or low point. Numerous studies have shown when an anchor is used at the beginning of the decision-making process, people do not sufficiently adjust from that initial anchor value to a more accurate one. A study of real estate appraisers and the effects of anchoring showed that by changing only one piece of information (the listing price) in a ten-page package of materials, the researchers were able to shift the real estate appraisal by more than $10,000.

Most commonly, anchors take the form of last year's strategic plan or this year's budget. By using the assumptions that went into last year's plan, strategy becomes fatally flawed. Strategic thinking demands that all assumptions, beliefs and information are looked at from a fresh perspective on a continual basis. Simply tweaking last year's plan is a major disservice to one's business because it suffocates any chance of discovering new insights that may dramatically alter the strategic direction.

Anchor's Away: To avoid the danger of anchors in strategic thinking, consider the following:
• Create an open mind by actively considering the range of starting points available, not just the anchor point (i.e., budget numbers).

• Identify anchors as soon as they appear and call them out mentally and physically (on paper/flipchart) so everyone is aware of their presence.

Trap #2: Groupthink
As strategic thinking and strategic planning are often done in a group setting, it's important to recognize the influence of "groupthink." Groupthink occurs when there is a homogenous group of people with little influence from outside sources and a high level of pressure to conformity. Groupthink tends to directly and indirectly reduce the level of objective thinking, remove "devil's advocate" thinking and punish those who attempt to do either. Irving Janis describes eight symptoms of groupthink. As you participate in your group's next strategic thinking or planning session, try to observe if any of these symptoms are present:

1. Illusion of invulnerability that leads to over-optimism and excessive risk-taking.
2. Efforts to rationalize or discount warning signs.
3. No challenges to collective thinking.
4. Stereotyped views of competitors as inconsequential.
5. Pressure on group members that disagree with the majority.
6. Shared illusion of unanimity.
7. Self-correction when thinking of diverting from group consensus.
8. Seek information that supports group consensus and unwillingness to look for or consider information that is contrarian (also known as the "confirming evidence bias").

Group(Think) Therapy: To avoid the danger of groupthink in strategic thinking, consider the following:
• Utilize an external resource to facilitate the strategy session to ensure objectivity and divergent opinions.
• Bring in people from other functional areas (R&D, IT, HR) to offer different perspectives.

Trap #3: Status Quo
Popular adages such as "If it ain't broke, don't fix it," "Don't rock the boat," and "Let sleeping dogs lie" all feed into the natural tendency to prefer the status quo. Time and again, research has proven when individuals have the option of doing something new or staying with the status quo, they overwhelmingly stay with the status quo.

Feeding into the danger of always leaning toward the status quo is that fact that human beings are generally risk-averse. Research in the field of decision-making by Amos Tversky and Daniel Kahneman has shown the threat of a loss has a greater effect on a decision than the possibility of an equivalent gain. The response to loss is more extreme than the response to gain. Consequently, many strategy decisions place too much weight on the potential negative outcomes or threats. This principle of human nature has a strong effect on strategy decisions and must be taken into account to avoid always acting in a risk-averse manner when the probability of success is actually greater.

Turning the Status Quo into Dough: To avoid the danger of the status quo in strategic thinking, consider the following:

• Focus on the outcome desired and use that as a measurement between the status quo and other alternatives.

• Examine the actual changes that would need to be made to abandon the status quo, as the reality is often less painful then imagined.

Most books and training programs only address the first three levels of strategy: corporate, business unit and functional group. In reality, these are all subsets of the most important level of strategy: YOU. The individual level is where strategy is actually created. Unfortunately, 90% of directors and vice presidents have never had any learning & development opportunities on strategic thinking. The good news is that by developing the three disciplines of strategic thinking, you can elevate yourself from tactical to strategic. The better news is that in doing so, not only will you become more valuable to your organization, you'll separate yourself and your business from the competition. Do you *get it*?

Rich Horwath is an author, professor, strategist and speaker who helps managers think strategically to create competitive advantage. He is the president of the Strategic Thinking Institute, a former Chief Strategy Officer and author of four books, including Deep Dive: The Proven Method for Building Strategy. *Visit www.strategyskills.com to sign-up to receive your free copy of Strategic Thinker.*