MAPPING A WINNING STRATEGY

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Developing and Executing a Successful Strategy in Turbulent Markets

By

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with
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emerald
PUBLISHING

United Kingdom – North America – Japan
India – Malaysia – China

Emerald Publishing Limited
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2018

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN: 978-1-78756-130-4 (Print)
ISBN: 978-1-78756-129-8 (Online)
ISBN: 978-1-78756-131-1 (Epub)

Ellen and Sophie (MB)
Kumiyo and Karna (PR)

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ACKNOWLEDGEMENTS

Mapping a Winning Strategy builds on best practices in strategy. We owe a great deal to the work of leading strategic thinkers, such as D'Aveni, Christensen, Courtney, Eisenhardt, Kotter, Kim, Liedtka, Martin, Mauborgne, Mintzberg, O'Reilly, Porter, Rumelt, Sull, Takeuchi, Teece, Tushman, Van den Steen and Zenger. In particular, we build on the valuable 'structured problem solving' method as successfully introduced in management consultancy by McKinsey & Company, and as described in various publications by former employees of this firm, such as Minto, Rasiel and Friga.

This book is based on 16 years of work (2002–2017). Besides literature research, we have learned a great deal from strategy consulting to managers, as well as from training managers on strategy and coaching them on application to their own practice. We also benefited from teaching business students and supervising them on real-world field projects. Working with hundreds of managers and students over the years, enabled us to gain deep insights into the practical challenges of strategy. This work also inspired the development of the Mapping Method, and it challenged us to explain the method in the best way possible. Working with all of them has been a source of inspiration. We are indebted to our schools, Rotterdam School of Management at the Erasmus University Rotterdam and the School of Management of Cranfield University, which provided room to explore and test our thinking. We feel privileged to have worked with inspiring colleagues and guest lecturers, among whom we would like to mention James Parker, Jacomijn Klitsie, Paul Pietersma, Mark Jenkins and Cliff Bowman, in particular.

We are also indebted to many people with whom we discussed ideas and parts of the many, early versions. We especially owe thanks to the reviewers of the manuscript in the final stretch. Our publisher organized blind reviews of the manuscript. We would like to thank these anonymous reviewers for their very constructive feedback. The book title was one of their helpful suggestions. In addition to the blind reviews, we invited reviewers ourselves. We have been privileged to receive additional, valuable feedback from very knowledgeable executives and business school professors with extensive experience in strategic management and/or strategy consulting at top-tier firms. The valuable reviews of the named and anonymous reviewers helped us make the manuscript better, simpler and shorter. We are much indebted to Hugh Courtney, Eric Van den Steen, Jan-Hein Jesse, Arnaud Chevallier, Kirsten Timmermans, Sigrid De Wever, Albrecht Enders, Jeremy Bentham, Joe Peppard, Annet Aris, Phebo Wibbens, Yoko Ishikura, Kalin Anev Janse, Ansgar Dierkes, Bas Vijfwinkel and Paul van der Heijden. Needless to say, any remaining errors and shortcomings in the manuscript are our own.

We also owe gratitude to Pete Baker, Kerry Laundon and Eve Hawksworth of Emerald Publishing for their professional support. Additionally, we thank Steven Hardman, our publishing consultant, for his work, and Marno Verbeek for making this vital connection.

Finally, we like to thank our wives, Ellen and Kumiyo, and daughters, Sophie and Karna. Writing this book in our spare time meant substantially less time for them. Their support and patience were critical success factors.

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LIST OF ABBREVIATIONS

CSF	Critical Success Factors
EMEA	Europe, Middle East and Africa
HR	Human Resources
IP	Intellectual Property
ISO	Issue–Strategy–Organization
M&A	Mergers and Acquisition
NGO	Non-Governmental Organization
MECE	Mutually Exclusive and Collectively Exhaustive
PESTEL	Political, Economic, Sociological, Technological, Environmental and Legal (developments)
R&C	Resources & Capabilities
ROIC	Return On Invested Capital
SMART	Specific, Measurable, Achievable, Relevant and Time-bound
SO	Strategy-Organization
SPS	Structured Problem Solving
SWOT	Strengths, Weaknesses, Opportunities and Threats
VUCA	Volatility, Uncertainty, Complexity, Ambiguity
WACC	Weighted Average Cost of Capital

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PREFACE: WHY READ THIS BOOK?

THE CHALLENGES OF STRATEGY

Developing and executing a winning strategy is probably the biggest and most difficult responsibility of business leaders. A winning strategy is a leader's main lever to motivate and mobilize stakeholders to achieve the firm's overarching objectives, such as profit, and people- and planet-related objectives. A winning strategy guides the firm's employees and external partners to make winning (operational) choices, and execute them well.

As a business leader you probably have to deal with the digital revolution, other forms of disruptive innovation, as well as hypercompetition and globalization. You live in a world of increasingly high levels of volatility, uncertainty, complexity and ambiguity (abbreviated as VUCA).[1] VUCA makes strategy development and execution hard but it does not reduce the relevance of strategy. To the contrary, your firm keeps its need for a long-term perspective where it should go. Strategy is complex because there are so many interrelated and interdependent aspects to consider within your firm, in its industry and in the broader environment. How many strengths, weaknesses, opportunities and threats (or SWOTs) should you analyse? You have to deal with too many interdependent moving parts, and you do not yet know when, or how fast they will move in what direction.

[1] Acronym of volatility, uncertainty, complexity and ambiguity of a situation. The term was introduced by the U.S. Army War College. (Source: Stiehm, 2002)

How do you conduct strategic analysis under such challenging conditions? How do you timely discover, verify and quantify the *real* strategic issues that keep you awake at night? How do you synthesize a comprehensive SWOT-analysis into strategic options? You know the frameworks for generic strategies but how do you design strategies that are customized for your firm and its unique and specific issues? In the strategic planning literature, strategy development resembles a black box. Is strategy development an art? Is a good strategy a stroke of genius? Or is it plain luck? How do you actually develop the strategic options that will create, strengthen and/or renew your firm's competitive advantages?

Finally, you may ask: How do I get my chosen strategy implemented, or executed? There is an extensive literature about implementation and change management. But study after study shows high rates of failure for strategy implementation. An important cause of failure is not, or insufficiently, taking into account the stakeholders inside and outside the firm. Therefore, the question arises: How should you deal with inactivity, resistance, friction and politics of stakeholders? How can you convince and mobilize relevant stakeholders to make your strategy work?

With an increasingly volatile, uncertain, complex and ambiguous (VUCA hereafter) world, the challenges of strategy development and execution are larger than ever before. Because many firms struggle with these challenges, you see a lot of bad strategy around you. We all know that conventional strategic planning cannot deal with present high levels of VUCA. Strategy has, therefore, lost some of its appeal. An increasing number of business leaders has reverted to a range of management tools, big data analytics, and learning through experimenting. These approaches can have an important role in strategy but they cannot substitute for strategy. Conventional strategic planning as well as the aforementioned approaches struggle with the challenges of VUCA.

The question therefore arises: How can you better handle these challenges of strategy?

WHO SHOULD READ THIS BOOK?

If you are responsible for, or otherwise involved in, strategy development and execution for your firm or a business unit within a firm, then this is a book for you. But you may also benefit from reading this book if you aspire for such positions. From experience you know what strategy development and execution are about and you recognize the above-mentioned challenges. Therefore, you are interested in a better 'how to.' This book provides it.

WHAT IS THIS BOOK ABOUT? A BETTER METHOD FOR STRATEGY DEVELOPMENT AND EXECUTION UNDER VUCA

Leadership Perspective

This book takes the perspective of business leaders; a chief executive officer, a managing director, a senior vice-president or a chief strategy officer. We focus on the roles and responsibilities of leaders. Leaders have support staff and/or external management consultants working with them. We assume leaders engage other stakeholders, such as employees, business partners and customers, as well in the process because a top-down approach from the board room will probably not be effective under VUCA. The strategy process will benefit from the insights, ideas and other support of a broad set of stakeholders. The subordinates and consultants may do the strategy analyses, develop recommendations for strategies and support the strategy execution process. But the firm's leaders need to evaluate their analyses and recommendations. It is the leaders who need to make the tough choices between strategic options and their trade-offs. Moreover, leaders have to persuade stakeholders inside and outside the firm to accept the new strategy and support the execution. This book provides a method for supporting leaders of firms in these tasks.

Advantages of the Method

This book provides a better method to create and execute a winning strategy under VUCA conditions. We name it the 'Mapping Method' for strategy development and execution. Mapping refers to the use of visual maps in the four intertwined processes of the method:

- Engaging employees and other stakeholders within and outside your firm in the processes of strategy development and execution. The purpose is to mobilize these stakeholders in order to get their commitment and support, and to avoid the weaknesses of a top-down approach and the problems of stakeholder politics.
- Exploring strategic issues. Before you can develop a new strategy, you need to thoroughly understand the big issues that substantially and structurally affect your firm's overarching performance. This process allows you to develop with your stakeholders superior insights in the real strategic issues, while avoiding 'boiling the ocean' with exhaustive and irrelevant analyses.
- Developing strategic options and choosing your strategy. Your purpose here is to create winning strategies and avoid the black box of strategy development by outlining clear routes to strategic options. Again you will engage stakeholders, including the most critical ones.

- Executing your chosen strategy. With this process you want to anticipate and prevent the (typical) roadblocks to strategy execution. We outline how to deconstruct your strategic choices in a set of concrete actions to successfully execute your new strategy, and also how to learn from execution to improve the strategy when needed.

The Mapping Method entails engaging stakeholders, developing and testing hypotheses (about issues and about strategies) and using visual maps to make complicated things simpler. The method will outperform conventional strategic planning, among others, because of the method's focus on stakeholder engagement.

By adopting a stakeholder-inclusive approach, allowing for 'bottom-up' and 'outside-in' ideas and insights, throughout the whole process, from issue exploration to strategy execution, you develop better strategies and achieve better execution results.

Another advantage of the Mapping Method is the focus on the real strategic issues. Such focus avoids 'boiling the ocean' and enhances the odds of generating valuable and exclusive insights as a sound basis for strategy development.

A third advantage of the method is the clarification of three alternative routes for developing strategic options: creative thinking as well as inductive and deductive reasoning.

Fourth, in this method, attention to execution does not start after strategy development but already begins with issue exploration.

We acknowledge the value of agility, simple rules and learning through probing and experimenting under high levels of VUCA. The Mapping Method offers a smart way to experiment and learn through the use of issue hypotheses and strategy hypotheses. The method treats strategies as hypotheses and tests them before execution, thereby reducing the odds of errors and costly failure. We acknowledge that strategy execution is the real test of a strategy hypothesis, and we acknowledge that strategies may not survive the confrontation with a VUCA reality. Therefore we incorporate learning from strategy execution to adapt strategies, or even develop new ones, if unforeseen circumstances require it. The Mapping Method is an integrated approach to strategy development and execution because we recognize that strategy development and execution are intertwined processes.

Building on Proven Successful Best Practices

The Mapping Method builds on best practices in strategy. We owe a great deal to the work of leading strategic thinkers such as D'Aveni, Christensen, Courtney, Eisenhardt, Kotter, Kim, Liedtka, Martin, Mauborgne, Mintzberg, O'Reilly, Porter, Rumelt, Sull, Takeuchi, Teece, Tushman, Van den Steen and Zenger. In particular, we build on the valuable 'structured problem solving' method as successfully introduced in management consultancy by McKinsey & Company,[2] and which in its turn builds on the scientific method (among others, hypothesis development and testing). But we extent this structured problem-solving method in several ways:

- We make the problem-solving method easier to use for strategists outside top-tier consultancy firms who lack access to such firms' huge knowledge bases (resulting from research and client work).
- We translate the problem-solving method from business problems in general to *strategic* problems as well as strategic *opportunities*.

[2] We solely rely on publicly accessible sources of information about the 'McKinsey'-structured problem-solving method. Among others, this method has been extensively described in valuable publications by several former employees of McKinsey & Company, such as Minto, Rasiel, Friga, Cheng and Hattori.

- We extend the problem-solving method from solving present problems to anticipating future ones.
- We codify and clarify three routes for problem solving.

We would like to emphasize that business leaders who have the Mapping Method at their disposal may have good reasons to work with strategy consultants. We acknowledge the knowledge and skills of these consultants. Moreover, the Mapping Method does not exclude working with consultants.

WHAT DOES THE BOOK LOOK LIKE?

The book follows a logical structure:

(1) Chapter 1 gives you an idea of what the Mapping Method is. We briefly talk you through the method and illustrate it with a case story about a producer of smartphones facing increasingly tough competition.

(2) Chapters 2–5 lay out the Mapping Method for (relatively) simple situations. We show how to use the method to effectively and efficiently address present and pressing strategic issues. We outline step by step the four processes of the Mapping Method: engaging stakeholders; exploring strategic issues; developing strategic options; and executing new strategies. Again, we illustrate the method with a case story, this time about an Internet firm developing 'smartglasses' to disrupt the smartphone industry.

(3) Chapter 6 considers complex situations. We show how to use the method to effectively and efficiently anticipate future strategic issues. Again we talk you through the process and provide a case story, now about a premium car maker anticipating the disruptive future of the car industry.

(4) Chapter 7 discusses the implications of the Mapping Method for the strategy process of your firm, and we also suggest practical ways to 'get started.'

The appendix offers templates that may give you a jump start. We also provide some background information about the main techniques used in the method.

Each chapter is structured into three parts. We start with an introduction, which states the objectives of the chapter and provides a brief overview of the content. Second, we provide the content of the Mapping Method and illustrate it with a case story. Third, we wrap it up with a conclusion that comprises a summary and the key takeaways of the chapter.

To manage your expectations, we may have to warn you. Our book is probably not as much fun to read as some of the popular 'airport books.' It is not a feel-good book filled with anecdotal stories about the world's most admired corporations or other 'usual suspects.' Our book will not present a deceptively simple success formula that may give you a good feeling while reading but which causes frustration when you try to apply it in your practice. This book may require quite an investment of your time and effort but we are convinced that the return on your investment will make it more than worthwhile.

1

OVERCOMING THE CHALLENGES OF STRATEGY WITH THE MAPPING METHOD

PhoneCo Part 1

PhoneCo is a leading high-technology firm offering smart mobile phones. In the early twenty-first century the company became very successful in the mobile phone industry with the launch of a highly competitive smartphone. The product's success was mainly attributed to its superior ease of use and an attractive product design. Over time, PhoneCo's increasingly powerful brand and the loyalty of its growing customer base enhanced its success even further. Its smartphone was a powerful growth engine for the firm, and because of its premium prices, PhoneCo also became very profitable.

However, after a long period of uninterrupted profit growth, PhoneCo's growth engine started to sputter. For the second year in a row, the firm's profit diminished. Although the profit was still high, financial analysts and journalists fell over each other to predict the end of PhoneCo. The firm was supposed to be over its peak…

INTRODUCTION

The chapter attempts to elaborate on the reasons why the Mapping Method exists. We discuss the challenges of the strategy in more detail, and we also consider the limitations of conventional strategic planning as well as some popular approaches to strategy, such as experimentation and agility. Next, we introduce the Mapping Method and illustrate it with PhoneCo: a 'faction' case.[1] Subsequently, we briefly outline the advantages of the method and uncover its foundations.

Chapter Objectives

- Understand the challenges of strategy for business leaders
- Understand the limitations of popular approaches
- Understand the advantages and foundations of the Mapping Method

Chapter Overview

- Challenges and stress factors of strategy
- Limitations of popular approaches to strategy
- The Mapping Method at a glance
- Summary

CHALLENGES AND STRESS FACTORS OF STRATEGY

Strategy is probably the greatest and most difficult responsibility for business leaders, especially in a world of high levels of volatility, uncertainty, complexity and ambiguity ('VUCA' hereafter).

Leaders may face potential traps when developing and executing a strategy. Leaders may confront the trap of 'boiling the ocean' with exhaustive analyses, instead of focusing on the really strategic issues. Another trap is the black box of developing strategic options. How to do it? Is it an art? Ignoring the trade-offs between strategic options and not making real choices are also traps of strategy. The tendency to give strategy up and focus on organizational agility instead is another trap for leaders. Agility can be valuable and support strategy development and execution but it cannot replace strategy.

The main challenges of strategy development and execution for business leaders are to:

- *Develop a superior insight into the real strategic issues of the business*. These issues are the big problems and opportunities that structurally and substantially, respectively, reduce or raise the overarching performance of the business (typically profit as well as people- and planet-related objectives). You must explore these strategic issues before you can develop effective strategic options to deal with these issues. You should not get stuck at the level of symptoms of issues, such as 'we cannot retain our top talent.' You need to develop a deep and preferably superior (to the competition) understanding of the root causes of strategic issues.

- *Make a winning strategic choice to address, or even better, anticipate the real issues*. Strategy is your best answer to such issues. It is based on deep, and preferably superior, insights into the issues.

- *Convince the relevant stakeholders to accept the strategic choice and support its execution*. Strategic choices have by definition performance trade-offs. You must choose what to do and what not to do. It is impossible to please all stakeholders inside and outside your firm because of the trade-offs.

Hence, you must explain your choices and use arguments to persuade relevant stakeholders.

Some of the main stress factors of strategy development and execution for business leaders are:

- *Complexity and volatility of the situation*: There are too many moving parts in strategy, and, to complicate things further, there are too many interdependencies among these parts. In the twentieth century, attempts were made to use complexity theory to model strategy development. A popular metaphor for strategy development then was the search for peaks on a landscape of potential strategies, a so-called 'fitness landscape.' However, that landscape proved to be too large for any computer algorithm to calculate an optimum (at least, within a reasonable timeframe). To make things worse, uncertainty about the future impedes the definition of the fitness landscape in the first place. The impossibility to define the landscape is known as the 'frame problem.'
- *Ambiguity and uncertainty about the future*: Business leaders must live with many unknowns and even 'unknown unknowns.' There is no crystal ball. As already indicated, the present state of the strategy landscape is too complex to model. To complicate things further, strategy is about the future. The future is, in most cases and to different degrees, uncertain. Using the valuable work of Hugh Courtney, we distinguish between four levels of uncertainty about the future.
  - The lowest one is 'a clear-enough future.' At this level, it is feasible to develop a forecast, identify any factors that may influence the forecast and conduct a sensitivity analysis.
  - The second-lowest level of uncertainty is known as 'alternative futures.' At this level, the future is one of a few alternative outcomes that can all be identified upfront.

  - The third level of uncertainty is labelled 'a range of futures.' At this level of uncertainty, you can identify the limited number of so-called 'critical uncertainties' that define a range of plausible futures or scenarios.
  - The fourth level of uncertainty is known as 'an unknown future.' At this highest level, there is no basis to develop a forecast because we cannot even identify a range of plausible futures. Therefore, the future is unknown at the fourth level.

- *Bounded rationality of actors* (strategists and stakeholders): No mind is big enough to develop a strategy and orchestrate the execution of a strategy on its own. Even in a theoretical case in which all of the required data for strategy analysis were available, strategists – like all people – would have insufficient mental-processing capacity with which to analyse and synthesize the data to develop strategies. The computational complexity of strategy development exceeds the capacity of even the most powerful, artificial intelligence-based computer programs. Strategy is more complex than games like chess and Go. To make matters worse, strategists and stakeholders – again, like all people – suffer from various kinds of cognitive and social biases that typically cause misperceptions, irrational decisions and other dysfunctional behaviour.
- *Opportunism of actors*: People may have hidden agendas and play political games. Strategy is a process concerned with people, and, consequently, it is concerned with politics. While acknowledging the legal obligation of a firm to its shareholders, we adhere to a stakeholder view of the firm. It is a mistake to perceive a firm as a unit. Instead, it is a nexus of (contractual) relationships between natural actors. These natural actors – owners, leaders and subordinates – do not necessarily form a unit, as they typically have their own distinct

(conflicting) interests and values. Such actors may act opportunistically if others cannot detect and/or control it.

VUCA has never been at such high levels before as a result of (digital) disruption, globalization, geo-political tensions, rising interconnectedness on a global scale, hypercompetition, the fourth industrial revolution, energy transition, economic development of Asia, ageing population, changing future of work, depletion of some natural resources, concerns about climate change and growing economic inequality. We perceive VUCA not only as a challenge but also as a condition for strategy. In a static, certain, simple and clear enough world, there is no, or at least much less, potential for strategies to create a (sustainable) competitive advantage and (persistently) superior economic performance.

LIMITATIONS OF POPULAR APPROACHES TO STRATEGY

Conventional Strategic Planning

Strategic planning is a classic but still very popular method among business leaders. It is a formalized and detailed process of analysing a firm and its environment. The resulting understanding of the strengths, weaknesses, opportunities and threats (SWOT hereafter) forms the basis for strategy development. The analyses are highly formalized, detailed and codified. In contrast, the synthesis of the SWOT to create new strategies is treated as an implicit, not-codified process, resembling a black box. Strategies appear full-blown and explicit from this black box process. Strategies are subsequently implemented through, again, a formalized and detailed process. The whole planning process is under control of the firm's leadership while the execution of the strategy is delegated to the firm's strategic planning staff and/or consultants. Line management and frontline employees are not involved in this top-down process until they have to implement the new strategy.

Limitations of Conventional Strategic Planning
Conventional strategic planning has been heavily criticized. One main point of criticism was the planning method's fallacy of predetermination. Long-run strategic planning presumes that you can predict the future. However, under high levels of uncertainty about the future you cannot predict the future, and therefore you cannot do long-run planning.

Boiling the Ocean. The fallacy of detachment is another critique on strategic planning. The planning method is based on a division between thinking and doing, respectively, strategy development and strategy implementation. It is presumed that the thinkers in the corporate headquarters can figure everything out. But the VUCA of the firm's situation is generally too high for the leadership and their planning staff. There is no master mind that can deal with this VUCA. An exhaustive SWOT analysis is not going to solve the VUCA problem. Since it may easily turn into 'boiling the ocean,' such approach may result in a work overload for the planning staff.

Strategy Development as a Black Box. Perhaps the biggest problem with strategic planning is that it is not a method for synthesis. It is a method for analysis. However, synthesis is critical for strategy. Without an approach for synthesis, it is not a method for strategy development. Strategic planning lacks techniques to synthesize a SWOT analysis. The connection between SWOT analyses and strategic option development is not clear. Option development, therefore, resembles a black box.

The Failure of Strategy Implementation. Moreover, the intended strategy resulting from the strategic planning by those in the headquarters is often not realized. Study after study has indicated a high rate of failure in strategy implementation. Implementation, according to conventional strategic planning, suffers from the divide between thinking and doing. The top-down approach to strategy, whereby planners at the corporate headquarters hand over the implementation plan to line management in the field is a problematic one. It may easily induce misunderstanding, resistance and other causes of strategy implementation failure.

Experimenting and Agility as Alternatives to Strategic Planning

Except for very low levels of uncertainty, no one can foresee the future, certainly not the distant future. As concluded earlier, you cannot plan a strategy for the future, at least not for the long run. Therefore, leaders may revert to 'strategy as experimentation.' They probe or experiment, learn from the experience and use the feedback for adapting their approach. For example, a car manufacturer may set up an experiment for car sharing. Frontline employees are generally in a good position to identify the opportunity for experiments. Their proximity to the frontline provides them with a better sense of what is going on in the market place than strategic planning staff at the headquarters. Rather than committing big time on a full-blown strategy, the firm engages in smart experiments. Each experiment is like a small bet. Ideally, the experiment includes a quick measure for fast learning and adapting. Experimenting relies on flexibility or agility. After failed experiments, the firm must rebound for adapting its approach. Therefore, the firm must have a certain resilience.

Complexity and Uncertainty

The bottom-up experiments by frontline staff may lead to the so-called 'emergent strategies,' which stand in sharp contrast to the planned strategies of corporate headquarters' planning staff. Experimenting and agility can be appropriate under high levels of VUCA. But even then, experimenting and agility are no substitute for strategy. We instead interpret experimenting and agility as means of strategy. The strategy determines whether one needs experiments and agility. Moreover, the strategy guides experiments to make it a smart process. The act of including frontline staff and other knowledgeable stakeholders in strategy development is an example of the stakeholder engagement advocated by the Mapping Method.

No Substitutes for Strategy

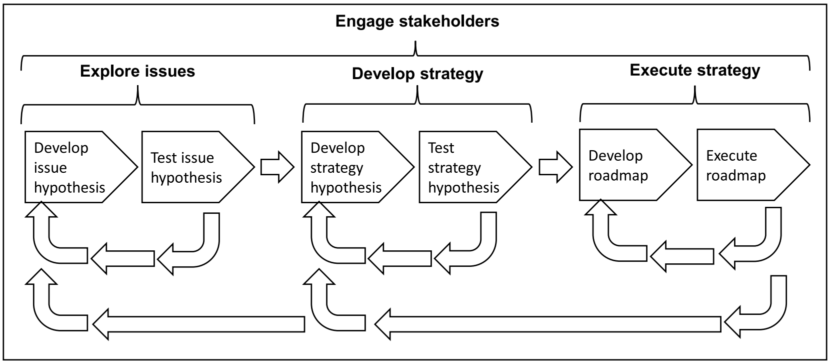
You may use experiments and agility as part of a strategy but not instead of a strategy. Not having a strategy is not an option for your firm; every firm needs to have a long-term perspective. It needs a direction indicating where to go. We do not advocate a purely top-down approach to strategy but we do consider that strategy is, and will remain, a very powerful lever for leaders to mobilize and guide the relevant stakeholders inside and outside the firm. A sound strategy should inspire and energize employees and other stakeholders who need to work with the strategy. A sound strategy is also demanded by financial markets, without which financial markets will discount a firm's stock value, and that firm will find it (more) difficult to get funding. Strategy is an important driver of shareholder value as it provides the logic for the future cash flows of the business.

THE MAPPING METHOD AT A GLANCE

The Process

The Mapping Method is a process that consists of four integrated processes: stakeholder engagement, strategic issue exploration, strategy development and strategy execution (see Fig. 1.1). We cannot overstate the importance of stakeholder engagement into the other three intertwined processes: issue exploration, strategy development and strategy execution. Strategy is about stakeholders, and therefore they need to be engaged in these three

Fig. 1.1: The Mapping Method for Developing and Executing a Successful Strategy in Turbulent Markets.



strategy processes. Stakeholder engagement is the basis and success condition for these other processes. Each of these processes benefits from stakeholder engagement.

These three processes form a sequence but with very important feedback loops. The sequence of the processes is logical. Before you can develop a strategy, you need to understand the strategic issues facing your firm. Therefore, you should start with exploring the issues. You explore the issues by developing and testing hypotheses about them. Furthermore, you need to develop a strategy before you can execute it. Strategy development must precede strategy execution. To develop a strategy, again you develop and test hypotheses. Otherwise, strategy execution resembles a blind trial (and error). Besides this logical sequence, there are very important feedback loops from strategy execution back to strategy development and even back to issue exploration. With increasing levels of VUCA, the odds of strategy (execution) failure increase and consequently the feedback loops become even more important. When you execute a new strategy, you may find that it fails to meet the performance objectives. Any gap between the realized performance and the objectives of a new strategy induces an analysis of that gap. Based on the insights from this analysis you may enter new rounds of issue exploration, strategy development and strategy execution. The four processes of stakeholder engagement, issue exploration, strategy development and execution are intertwined, and therefore the Mapping Method provides an integrated approach to these processes.

We call our method the 'Mapping Method' because for each process you use one or more visual maps. These maps help to make complex things simpler. For each step of the strategy processes, you use a visual map that is designed for that step. Therefore, different steps have their own maps. Let us briefly touch upon the four processes.

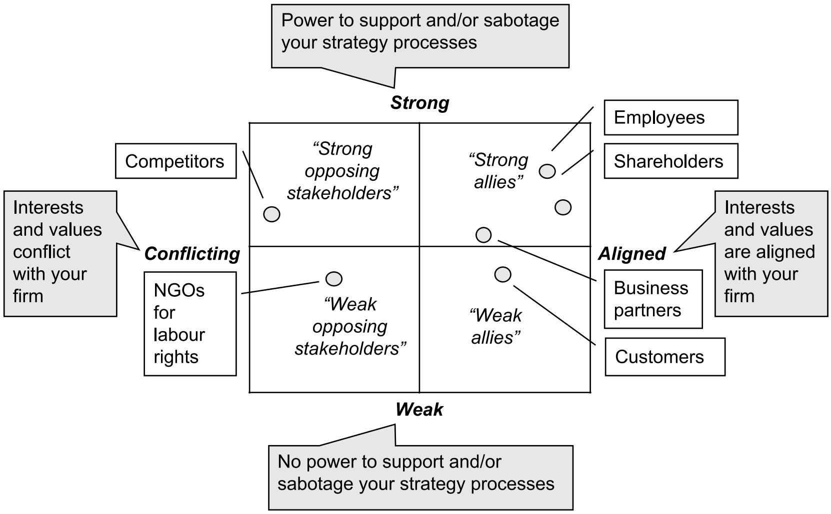
Engage Stakeholders

You need to engage stakeholders in the strategy processes. By engaging we mean informing, aligning, enabling and involving the relevant actors from issue exploration to strategy execution. We define stakeholders broadly and look beyond the 'usual suspects,' such as customers and suppliers, to include other stakeholders as well, such as employees, (activist) shareholders, regulators, governments and NGOs. The relevant set of stakeholders varies with the type of strategic issue. The strategic issue defines who have a stake in it. The next step after identifying the stakeholders is to categorize them and create a stakeholder map (see Fig. 1.2). This is the first of a set of visual maps that you will use in the various steps of the strategy processes. We propose two dimensions to map your stakeholders.

Power

One dimension of the map is the power of stakeholders. Powerful, strong, stakeholders possess or control critical resources (such as knowledge and manpower), and/or other bases of power for supporting and/or sabotaging your strategy processes. On the other end of the map's axis you find the weak stakeholders who neither possess nor control critical resources or other bases of power.

Fig. 1.2: Mapping Your Stakeholders.



Notes: NGO stands for non-governmental organization. This map is the authors' interpretation of the 'Power-Interest Grid' of Mendelow.

Alignment

The other dimension of the stakeholder map is the alignment of your stakeholders with your firm. On the one hand, you have stakeholders whose interests and/or values are aligned with that of your firm. On the other hand, you map stakeholders whose interests and/or values conflict with those of your firm. After mapping the stakeholders on the basis of their power and alignment, you determine your approach of engaging them. You develop engagement approaches to match the needs of the different categories of stakeholders.

PhoneCo Part 2

The decline of PhoneCo's profit caused concerns among its shareholders. The firm must turnaround to meet shareholders' expectations. PhoneCo's strategy that brought the firm its huge success has become outdated. Therefore, the chairman of board has ordered a strategy review.

The present competitive strategy is characterized as 'differentiation.' PhoneCo has a differentiated customer value proposition based on the phone's superior user experience, an attractive product design and a prestigious brand. A high willingness of customers to pay for the phones justifies their premium prices. Product development and marketing are PhoneCo's core capabilities. PhoneCo outsources the manufacturing of its phones to independent manufacturing firms located in low-cost countries where labour is cheap. The products of PhoneCo are sold worldwide via online channels and also via 'brick-and-mortar' retail channels. The firm's mission is: 'To contribute to society by making easy-to-use products for individuals to access, process and exchange information with each other.' The firm's vision for the future is that everybody in the world should have PhoneCo's friendly personal information and communication products at his/her disposal. Owing to its history of record profits, the firm has 'deep pockets.'

Before the start of the strategy review, PhoneCo's leadership identifies the main stakeholders. For each stakeholder, the leadership considers the stakeholder's power over the firm's strategy processes as well as the stakeholder's alignment with the firm. Fig. 1.2 shows the outcome of the stakeholder mapping. The right side of the map shows the aligned, or allied, stakeholders: PhoneCo's employees, shareholders, customers and business partners (suppliers, including the external providers of manufacturing services). The left side of the map shows the opposing stakeholders: among which, competitors as well as non-governmental organizations (NGOs) that fight for labour rights. The latter accuse the firms to which PhoneCo outsources its manufacturing of paying their employees too little and not treating them well.

Explore Strategic Problems

An important requirement before you can develop a new strategy is that you need to deepen your understanding of what is really relevant and important for your firm. What are the strategic issues facing your firm? What keeps you as leader awake at night? To frame the strategic issues, you look through the lens of the overarching objectives of your firm. Profit and shareholder value are typical overarching objectives of firms but your firm can also have other objectives, such as people- and planet-related objectives (be a good employer and a good corporate citizen).

We distinguish between two types of strategic issues, namely strategic problems and opportunities. Strategic problems are about substantial and structural underperformance of your firm: the realized performance is substantially and structurally lower than the performance objective. Your strategic opportunities are about the potential for substantial and structural overperformance. Opportunities allow your firm to realize a substantial and structural increase of its overarching performance objective. For example, a 'tech firm' has developed a breakthrough innovation in the form of a radically new product, which has the potential to disrupt an entire industry. This disruption will allow that firm to reach a substantially higher profit objective.

We distinguish between present and future issues. Your strategy needs to respond to present issues and to anticipate future issues. By exploring all these present and future issues, you strive to develop superior, privileged insights into the nature of your business. By superior we mean insights that your competitors have not obtained. This insight advantage serves as a sound basis for developing your winning strategy.

This chapter focusses on pressing present strategic problems, which means that a firm's present realized performance (such as profit) is substantially and structurally below the desired performance or objective. Chapters 2–5 of the book also cover present strategic opportunities. The sixth chapter discusses future issues.

A substantially and structurally underperforming firm suffers from one or more strategic problems because there are no consequences (underperformance) without causes (problems). You need to develop an explanation of your strategic problems. This insight into the (root) causes of the problems is the basis for your new strategy. In order to arrive at the potential explanations of the problem you develop and test hypotheses. These hypotheses allow for a learning approach. Rejections of problem hypotheses can provide you with valuable feedback. The outcomes of negative tests can enrich your insights to adapt your hypotheses or develop better hypotheses. You continue hypothesis development and testing until you have explained the problems. You engage stakeholders in the problem exploration to enhance the quality of your hypothesis development and testing. Stakeholders, such as your employees at the (factory) floor or in the field (employees in externally facing roles such as sales people and procurement professionals), are close to 'the action' and may therefore have superior insights into issues. Insights from the bottom of the organizational pyramid and from outside the firm enrich your repertoire of potential explanations. Stakeholder engagement also contributes to stakeholders' acceptance of problem explanations and may help you to obtain stakeholders' support for the subsequent process of strategy development and execution. It goes without saying that this acceptance and support are critical success factors.

Problem? No SWOT

Exploration of strategic problems according to the Mapping Method does not have to begin with a SWOT analysis. Why not? Because you start problem exploration with the gap between the realized performance and the overarching objective of the business. The examples in this book focus on profit as the overarching objective but our method also allows other objectives (best if they are formulated in a 'SMART' way, meaning specific, measurable, achievable, relevant, and time-bound). To frame the strategic problem, you compare the realized profit with the desired profit or objective. The problem gap is the difference between the realized profit and the (higher) desired profit.

You may compare the Mapping Method to a visit to a medical doctor for a diagnosis. Doctors typically will not start with a full health scan (comparable to a SWOT). They first ask for symptoms. For example: Where does it hurt? Doctors start with the consequences instead of the causes. This approach ensures the relevance of their search. We propose to do the same in strategy development. Do not start with a SWOT analysis but with the pain: the problem gap. This gap focus ensures the relevance of your search and prevents you from conducting unnecessary analyses. Nevertheless the SWOT analysis has a place in the Mapping Method when you explore present opportunities and/or future issues. You may then do a (quick) SWOT analysis to identify potential causes of present opportunities as well as future problems and opportunities.

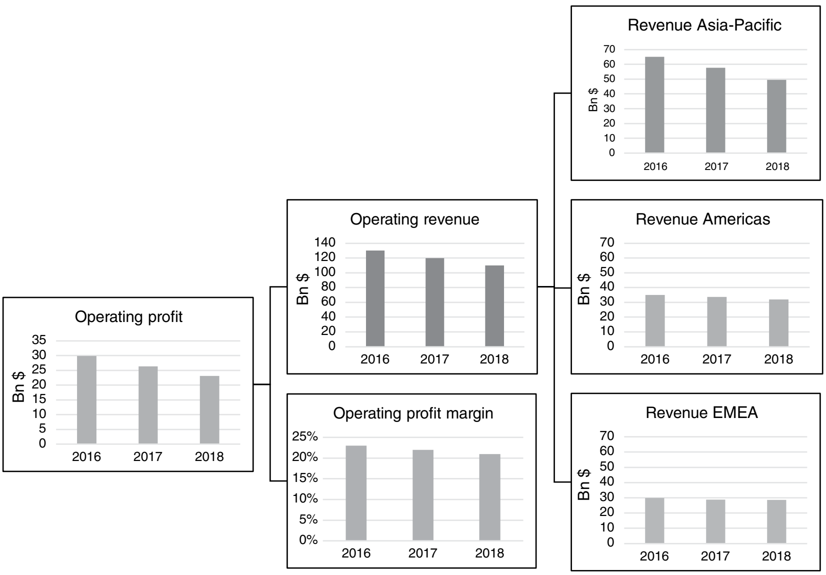
The Problem Gap

This chapter focuses on strategic problems, causing situations of substantial and structural underperformance. We look here at situations where the realized performance is substantially and structurally below the desired level or the performance objective. We would like to note that not every performance gap qualifies as a strategic problem. We are looking for substantial and structural gaps. The future of the business should be at stake. That makes problems strategic.

Size the Problem Gap

The first question you answer is: 'What is the problem?' You measure the gap. It is important to take a fact-based, objective approach to framing problems because problem diagnosis can easily turn into a blame game. Your stakeholders may blame each other or the external circumstances ('It is the bad economy!') for causing the problem. A snapshot of your firm's performance gap (for example, one quarter or one year) is not enough because you need to monitor performance at least for a certain period to determine whether the gap is structural. Next, you want to understand the nature of the performance gap. What are the composing elements of the gap? If you have profit gap then you identify the elements of profit. You can break down or 'deconstruct' profit into its elements, namely revenue and costs (profit equals revenue minus costs). An alternative break down, or deconstruction, of profit is revenue and profit margin (profit equals revenues multiplied by margin), as shown in Fig. 1.3. Deconstruction should follow a logical structure. The elements should be mutually exclusive and collectively exhaustive. Appendix 1 shows with Fig. A.5 a logical structure and Appendix 2 explains the principles of logical structuring. Now you can measure the profit gap per element. You compare the gaps of each profit element, and if the differences are large enough then you can prioritize

Fig. 1.3: Mapping Your Problem Gap.



Notes: EMEA stands for Europe, Middle East and Africa; Bn stands for billion.

the profit element with the biggest gap. The priority should at least explain a sufficiently large (you decide the threshold) share of your firm's profit gap. The biggest profit element gap is your priority for the subsequent problem exploration. This prioritization is one way in which you increase the efficiency of your strategy process. Stakeholder engagement may help you to collect the data for sizing the profit gap and its elements. You may communicate the profit gap to create a sense of urgency among your stakeholders.

Segment the Gap

By now you know the size of your firm's profit gap. You have also prioritized the biggest profit element. Now you are ready for the next question: Where is the problem? In what segment(s) is the gap concentrated? This is relevant because the distribution of the gap across segments is generally skewed. Here you look at whether the '80/20 rule,' or the Pareto principle, applies. Segmentation can be done in various ways. For example, you may segment revenue by product, market, customer, country or distribution channel. Your segmentation should follow a logical structure. The segments should be mutually exclusive and collectively exhaustive (see Appendix 2). You look for a segmentation that reveals large differences between the segment gaps. Again you take a fact-based approach. You compare the gaps of segments and in case of large differences you prioritize the largest one(s). These prioritized segments will be the subject of your next step in problem exploration: explaining your segment gap.

PhoneCo Part 3

PhoneCo's operating profit peaked in 2016 (see left-most graph in Fig. 1.3). This year seemed a turning point in the firm's profit history. After an uninterrupted rise, profit fell.

The decline during the two subsequent years is substantial ($6.8 billion) and looks structural because the profit forecast is also negative.

To deepen insight into the nature of the profit gap, the two graphs in the middle show the development of the two profit elements, revenues and operating margin, over the past three years. Both revenues and margin declined but calculations show that the effect of the revenue decline on profit is more than twice that of the margin decline. The revenue decline explains a profit decline of $4.6 billion, whereas the margin decline translates to a $2.2 billion profit decline.

Because of its relatively large contribution to the profit gap, the revenue gap is the priority for further investigation. The right-most graphs show the revenue development by three geographic segments: the regions in which PhoneCo operates. The revenue decline of $20 billion is unevenly distributed over these regions. Asia-Pacific is not only the largest source of revenues but also the largest contributor to the revenue gap. This region witnessed a revenue decline of more than $15 billion.

Explain the Gap

Develop Problem Hypotheses. Why does your firm's problem exist? You begin with developing the potential explanations of the performance gap. What may be the cause(s) of the gap? You distinguish between three routes for developing such explanations: creative thinking, inductive reasoning and deductive reasoning. Here we emphasize a particular form of creative thinking, namely abductive reasoning, or abduction. This is a form of logical inferencing that goes from observation to theory. It is understood as inferencing to the best possible explanation. Abductive reasoning was introduced in modern logic by the American philosopher Charles Sanders Peirce. We interpret abduction as guessing the best explanation for a performance gap. For example, a consumer goods company may infer that a revenue gap of its product may have been caused by an ineffective marketing campaign. Inductive reasoning is the use of analogical cases and other observations to explain gaps. Deductive reasoning refers here to the use of frameworks and other theories to explain gaps. Appendix 2 illustrates the differences between abductive, inductive and deductive reasoning.

To improve and enlarge the set of potential explanations you may engage stakeholders in the explanation process. Internal stakeholders, such as employees on the factory floor or in the field, and external stakeholders may be closer to the problem causes and can therefore be sources of valuable insights into these causes. After generating and collecting potential explanations, you can evaluate the potential explanations and select your prioritized explanations as your (initial) problem hypotheses. Your problem hypothesis is a tentative statement about the potential relationship between a particular cause and the problem gap. Note that we distinguish between problem hypotheses and strategy hypotheses!

Test Problem Hypotheses

Your problems hypotheses should be put to the test. Testing means evaluating whether all the assumptions of that hypothesis are met. The assumptions are the necessary conditions for the hypothesis to hold. Identifying these assumptions is a matter of critical thinking: What do you have to know or believe to accept this hypothesis? The Mapping Method takes a systematic approach to testing a problem hypothesis.

1. You identify the assumptions of the problem hypothesis, including the implicit and unquestioned ones.
2. You define the desired support or evidence of each assumption.

3. You collect or create data, and then analyse the data to test each assumption (probably you delegate this work to subordinates).
4. You decide on the test outcomes and accept or reject the hypothesis.

We would like to emphasize that hypotheses by definition cannot be proved. They can only be disproved. Final and absolute support for a problem hypothesis (assumption) is not feasible. Moreover, the empirical support may suffer from a lack of time and other resources for testing. With imperfect data, the decision about the test outcomes becomes a judgment call. The aim of issue exploration is to develop superior, preferably exclusive, insights into the problem causes. You synthesize your problem exploration into a single question. This key question looks like this:

> *How should we respond to the [to be specified] cause(s) of our firm's problem to close the profit gap before a specified date?*

The key question guides your strategic option development. In addition, you need to define upfront the criteria for evaluating the strategic options, and you also need to define the constraints or boundaries of the option space: options that are acceptable and those that are not acceptable.

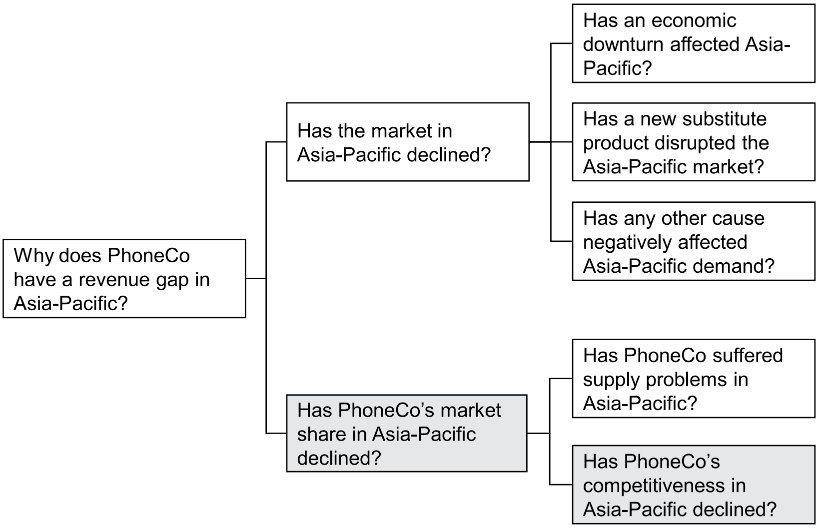
PhoneCo Part 4

The gap of the operating profit is for the biggest part due to the decline of revenues. The revenue decline is largest in Asia-Pacific. Therefore, the explanation of this revenue gap forms the priority for PhoneCo. Fig. 1.4 is a map of potential explanations of this gap. The map is a logical structure. Why have revenues declined? There are only two explanations for declining revenues. Either the market declined or PhoneCo's share of the market declined. Market research shows the Asia-Pacific market has grown, whereas PhoneCo's share has declined. Why has the market share declined? There are again two explanations. Shares decline because of supply constraints (customers would be willing to buy PhoneCo's phones but the firm cannot supply the products to customers for whatever reason) or a lack of competitiveness (customers prefer to buy the phones of competitors). There have been no supply problems of any kind, but PhoneCo's competitiveness has suffered during the past years. Market research reveals that particular competitors from Asia-Pacific have taken share from PhoneCo. During the past three years, these players have introduced phones that in the customers' perception come very close to PhoneCo's products. The user experience, the looks and the brand are not (yet) the same as PhoneCo but the huge price advantage of the competitors more than compensates any value disadvantage. In particular, the price-sensitive customers prefer the phones of these competitors over PhoneCo.

Leadership summarizes the exploration of the Asia-Pacific revenue gap as follows: 'How should PhoneCo respond to the low-price competition to realize the desired revenue growth in Asia-Pacific within three years?'

Note: This case only describes PhoneCo's present revenue problem in Asia-Pacific. This problem exploration is only a part of the firm's issue exploration. A complete issue exploration also includes other present problems as well as present opportunities (subject of the book's next four chapters) and future problems and opportunities (to be discussed in the sixth chapter). The highlighted explanations in Fig. 1.4 are supported by evidence.

Fig. 1.4: Mapping the Potential Explanations for Your Problem Gap.



Develop Strategic Options and Make a Winning Choice

Your insights of issue exploration allow you to develop strategic options. Each option should be a potential solution to your firm's strategic issue. But typically, there are trade-offs between your options. One option may be superior in this aspect while another option may be better on another aspect. A classic example: strategic option 'A' leads to the lowest costs but at the expense of differentiation, while 'B' leads to the highest level of differentiation but also to higher costs. Business leaders need to choose between options and their trade-offs. To complicate things further, you must choose under uncertainty.

You recognize the blurring lines between strategy development and strategy execution under uncertainty. Issue exploration, strategy development and execution are treated as intertwined processes. You acknowledge that strategy is a hypothesis. The Mapping Method uses hypothesis development and testing. You test a strategy hypothesis before execution to reduce the risk of execution failure. You may learn from the rejection of a strategy hypothesis to improve your hypothesis or develop a new one. But we admit that the real test of a new strategy is its execution. You, therefore, monitor the performance of strategy execution and explore any issues of strategy failure. You may learn from these insights of issue exploration to improve your strategy. The Mapping Method has two levels of feedback loops (see Fig. 1.1). The first level is within each strategy process. The second is from strategy execution back to strategy development and even issue exploration.

Strategy as a Configuration

Building on, and extending the valuable work of Donald Hambrick and James Frederickson, we conceptualize a strategy as a configuration, or system, of four components. One component is the arena where your firm operates. The value propositions are another component. The customer value proposition is well known but your firm should also consider its value propositions for other stakeholders, such as employees, suppliers and governments. The third component is your firm's value creation model, which is the way that your firm creates these value propositions. The value chain of Michael Porter is a good example. Last but not least, you have the value capture model. This is the way that your firm captures (part of) the value that it creates. Premium pricing is an example of value capturing. If your firm's overarching objective is profit, then the value capture model is your firm's way to make a profit. For each of the four components you need to make a choice. The choices for the four components should be coherent and consistent. For a winning strategy, these choices should reinforce each other.

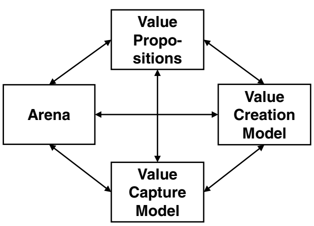
Three Routes for Developing Strategy Hypotheses

Your key question together with the evaluation criteria and solution constraints form the point of departure for the development of your new strategy. The Mapping Method distinguishes between three complementary routes for strategy development.

- One route is creative thinking. This is about intuition and imagination. This route belongs to 'strategy as an art.'
- A second route is inductive reasoning. You use best practices, other analogies and other observations as inspiration for your new strategy.
- A third route is deductive reasoning. Here you use frameworks (such as the generic competitive strategies of Michael Porter), other theories, and rules as a basis to develop strategies.

You may develop strategic options in two steps. First, you develop options for each individual component of the strategy configuration (see the rows of the table in Fig. 1.5). Second, you develop coherent and consistent combinations of options for the four components (see the vertical combinations in Fig. 1.5). After developing strategic options, you evaluate them and select the prioritized options as your (initial) strategy hypotheses. This evaluation and selection process is highly similar to selecting problem hypotheses. Next, you

Fig. 1.5: Mapping Your Potential Strategies to Close Your Problem Gap.



Potential Strategy Configurations: New differentiation; Economy brand

Configuration Component	Component Options		
Arena	High-price phone segment	Low-price phone segment	Smartwatches
Customer Value Proposition	Differentiation through new high-value features	Differentiation through high-value apps and services	Economy brand
Value Creation Model	Strengthen innovation focus	Strengthen efficiency focus	
Value Capture Model	Maintain premium pricing	Low-cost, high-volume	

Note: To keep the table clear we only show two potential strategy configurations and one type of value propositions (the customer value proposition).

test your strategy hypotheses. You use critical thinking to uncover the hidden assumptions of your strategy hypothesis.

Test of a Strategy Hypothesis

As indicated earlier, the real test of your strategy hypothesis is its execution. But you can test your strategy hypothesis before execution. The Mapping Method takes a systematic approach to testing a strategy hypothesis. Again, it is highly similar to testing problem hypotheses.

1. You identify the assumptions (conditions) of your strategy hypothesis.
2. You define the desired support or evidence of each assumption.
3. You collect or create data, and then analyse the data to test each assumption (or delegate these tasks).
4. You decide on the test outcomes to accept or reject the hypothesis.

Collecting and creating data for testing your strategy hypothesis is more challenging than a hypothesis about a present problem because a strategy is about the future while a present problem exists today. Besides uncertainty about the future, and time and resource constraints, (internal) politics may complicate the testing of strategy hypotheses. Under such circumstances, the decision about the test outcomes is typically a judgment call. You may discuss the test outcomes with stakeholders. But in the end you, as a leader, must take the decision to accept or reject a strategy hypothesis. Your rejection of strategy hypotheses means iteration of the process of hypothesis development and testing. Strategy development is, therefore, a learning process. Instead of rejecting a strategy hypothesis altogether you may also improve it to pass the test.

Make Your Choice

After testing and deciding on your strategy hypotheses, you face a set of accepted strategic options. You have to make a choice between these alternatives. But choosing between strategic options is difficult because these choices always have performance trade-offs. You have to make a well-considered judgment of these trade-offs. Moreover, strategic options may reflect different values. Choosing among these options with differing values will be subjective because stakeholders have different views, values and interests. You need persuasion – argumentation – to convince these opposing stakeholders to accept and support your strategic choice. If persuasion does not work, you have to revert to politics as a matter of last resort to align these stakeholders.

PhoneCo Part 5

Fig. 1.5 shows only two potential strategy configurations, namely 'new differentiation' and 'economy brand.' PhoneCo will consider more strategic options but this case description concentrates on only two examples of options. These strategic options draw on deductive reasoning as they are inspired by Michael Porter's generic competitive strategies framework, respectively, differentiation and cost leadership. 'Economy brand,' also draws on analogical reasoning. Economy brands are a common practice in the fast-moving consumer goods business (FMCG hereafter). FMCG firms have shown the benefits of a second brand, a 'price fighter,' to successfully compete in mature markets. PhoneCo generates options at the level of individual strategy configuration components (see the rows in Fig. 1.5).

Arena

Where should PhoneCo play? The firm can stay in its present arena of the 'high-price' smartphone segment of the Asia-Pacific market. An alternative is to enter lower-price segments. Further arena options add or switch to new products, such as smartwatches.

Value Proposition

Value propositions answer the question: How should PhoneCo win in the Asia-Pacific smartphone arena? Here you may use the route of deductive reasoning by using Michael Porter's generic competitive strategies: differentiation or cost leadership. Within differentiation strategies you distinguish between strengthening PhoneCo's present differentiation (by introducing new high-value features for its smartphones) and creating new differentiators, such as complementing its smartphones with high-value apps and services (the latter may benefit from the Blue Ocean Strategy approach of Chan Kim and Renée Mauborgne). Within the category of cost leadership, PhoneCo distinguishes between the option of reducing the price of its smartphones under its present PhoneCo brand, and the option of adding a new economy brand for the lower-priced phones.

Value Creation Model

PhoneCo may strengthen the focus of its value creation model on innovation: new phone features and/or new apps and services. An alternative is to strengthen the efficiency focus of the value creation model, increasing the efficiency of phone manufacturing even further.

Value Capture

PhoneCo may capture value by maintaining its premium pricing. To prevent competitive imitation through dissemination of knowledge, PhoneCo may consider manufacturing its most innovative phones 'in-house' and in its home country instead of outsourcing its manufacturing to countries with a weak intellectual property protection. An alternative value capture model to premium prices is 'low cost – high volume.' In this model, prices are lower but so are the costs. Higher volumes compensate for lower margins. Outsourcing in low-cost countries poses no risk to the 'low cost-high volume' value capture model because these phones do not incorporate special knowledge that may be of interest to competitors.

Note: This case is limited to the short-term horizon strategy in response to the firm's present revenue problem in Asia-Pacific. We distinguish between short- and long-term horizons (to be discussed in the sixth chapter of the book). A short-term horizon strategy responds to present problems and seizes present opportunities to defend or extend the smartphone core business. A long-term horizon strategy anticipates future problems and seizes future opportunities to build new businesses. PhoneCo's long-term horizon strategy may be developing a portfolio of real options for future businesses to create the 'next big thing' after the smartphone.

Execute the Chosen Strategy

After choosing your strategy, you develop an execution roadmap for your chosen strategy. A new strategy typically has implications for the organization as well. Strategy and organization must be congruent. You deconstruct the required changes to your strategy and organization into a coherent set of concrete actions that are executable. It is important to anticipate and remove roadblocks to execution. Roadblocks arise as a consequence of a lack of awareness, alignment and ability of stakeholders.

The concrete execution actions and the flanking actions for removing roadblocks together form your execution roadmap. After developing the roadmap for execution, you follow this map to execute your new strategy. As stated earlier, the execution is the real test of a strategy. You monitor the execution of the new strategy. If the performance of the execution falls short of your objectives, you analyse this performance gap. Analysis of this gap allows you to learn and improve the roadmap and/or the strategy, whatever is necessary. If the execution roadmap is the cause of the gap, then you improve the roadmap. But if the new strategy itself caused the gap than you need to improve the strategy or may be develop a different strategy. You may also need to explore any new strategic issues that have emerged since strategy development. We therefore emphasize the feedback loop from strategy execution back to issue exploration and strategy development. The three processes of issue exploration, strategy development and strategy execution are intertwined, and therefore require an integrated approach. After a successful execution you return to issue exploration in order to anticipate any upcoming new issues. In a VUCA world, the strategy processes can never stop.

Ensure Congruence between Organization and New Strategy

To execute your new strategy, you need an organization that fits this strategy. You need fit, or congruence, between the new strategy configuration and the organization configuration. The present organization configuration may not fit the new strategy. See the Strategy-Organization (SO) congruence map (see Fig. 1.6) for an example of the organizational consequences of a new value creation model. To execute the new strategy configuration, you may need to change the organization configuration as well. Together with your subordinates, you deconstruct the required high-level changes of strategy and organization into very concrete actions to be executed by individual employees and other actors.

Fig. 1.6: Mapping Your Strategy and Organization Configurations for Congruence.

Potential Strategy Configuration: Economy brand

Strategy Configuration → / Organization Configuration ↓	Arena	Value Propositions	Value Creation Model	Value Capture Model
	Low-price phone segment	Economy brand	Strengthen efficiency-focus	Low-cost, high-volume
Resources & Capabilities			R&C for low cost	
Processes			Efficient processes	
Structures & Systems			Cost monitoring and control	
Culture			Cost consciousness	

Note: The filling of the map is limited to the value creation model.

PhoneCo Part 6

The leadership of PhoneCo considers the organizational requirements for the 'economy brand' option. This new strategic option requires major changes in all four components of the organization configuration. Fig. 1.6 only shows the organizational consequences of the new value creation model of the 'economy brand' option. PhoneCo needs to adapt its resources and capabilities. An economy brand means saving on product innovation. Research and development budgets and resources have to be reduced. The required low costs also imply high manufacturing volumes. Therefore, the firm (and its outsourcing partners) needs to invest in scaling up its (manufacturing) operations.

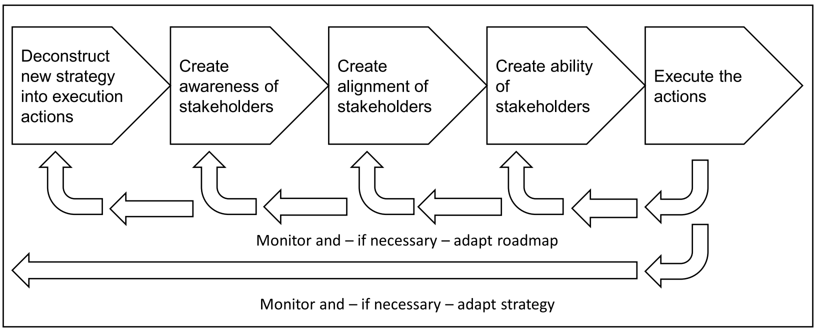
The value-creating processes also need an adaptation. In order to reduce costs, PhoneCo may consider outsourcing and offshoring processes to, respectively, lower-cost providers and lower-cost countries. The firm may also reengineer some processes for higher efficiency. Changes of organization structures and systems are also important for the value creation model of an economy brand. Simplification of structures may reduce bureaucracy and overhead, as well as create clearer responsibilities. The firm needs to introduce or improve systems for monitoring and controlling of costs. Moreover, PhoneCo needs to create transparency (share cost information), make people accountable for cost targets, and create effective incentives to achieve these targets. Cultural changes may also contribute to the effectiveness of a value capture model of an 'economy brand.' PhoneCo may, for example, adopt a 'lean and mean' culture with a high level of cost consciousness of all employees.

Often you need to do two things in parallel. On the one hand you need to continue your 'legacy business' and its organization. On the other hand, you need to develop a new organization configuration for your new strategy. Like an ambidextrous individual is able to use both hands with equal ease or dexterity, a so-called 'ambidextrous' firm is able to exploit the legacy business and develop a new business with equal ease and at the same time.

Anticipate and Remove Roadblocks to Execution

Before you can start the actual execution of your new strategy, a so-called 'pre-mortem analysis' is to be done to anticipate roadblocks, if any. Typical roadblocks that are related to stakeholders are a lack of stakeholders' awareness of the strategic problem, the new strategy and/or the execution actions. Another category of roadblocks is a lack of alignment of stakeholders. The final roadblock is a lack of stakeholders' ability to execute the new strategy. In addition to your execution actions, you need to develop actions to remove these roadblocks. Together these execution actions and the roadblock removal actions form your execution roadmap. It speaks for itself that your roadmap should consist of a coherent set of actions. Execution of your new strategy requires the tight coordination of these roadmap actions, the monitoring of progress (or a lack of it), and if necessary adaptation of your execution roadmap and/or iteration of issue exploration and strategy development (depending on the situation at hand). See Fig. 1.7 for a conceptual presentation of the execution roadmap.

Fig. 1.7: Mapping Your Strategy Execution.



Advantages of the Mapping Method

The Mapping Method supports business leaders to deal with the challenges of strategy, as listed below:

1. Develop superior insight into the real strategic issues of the business.
2. Make the winning strategic choice to address, or even better, anticipate the real issues.
3. Convince stakeholders to accept your choice and support its execution.

The Mapping Method suggests five practices for business leaders.

Make Maps: Make it Simpler

The method uses visual maps for each process. You map stakeholders, strategic issues, strategic options and execution actions. These maps make things simpler and provide an overview. Maps help leaders focus on what is relevant, make winning choices and persuade stakeholders to accept and support these choices.

Engage Stakeholders: Create a Win–Win Relationship

The Mapping Method suggests stakeholder engagement in all strategy processes, from issue exploration up to and including strategy execution. Stakeholders can help business leaders develop superior insight into the strategic issues, as well as develop superior strategic options. Stakeholder engagement fits with the employees' initiatives in 'emergent strategies' and it differentiates the Mapping Method from the top-down approach of conventional strategic planning. The Mapping Method suggests that leaders draw on the insights and initiatives of employees, and other stakeholders, for issue exploration, strategy development and strategy execution.

Explore Performance Gaps: Focus on What is Most Important

The method's focus on performance gaps allows leaders to identify the real strategic issues. Gaps define what is relevant and what is not. Prioritizing performance elements, segments and potential explanations induces efficiency and speed. By weeding out the less relevant and irrelevant aspects, the gap focus also reduces the complexity of analysis.

Develop Strategy Hypotheses: Open up the Black Box of Strategy Development

The Mapping Method's use of problem and strategy hypotheses helps strategists to deal with VUCA. Hypothesis development and testing is a form of smart experimentation that enables strategists to efficiently and effectively develop superior insights and superior strategies under VUCA. To open up the black box of strategy development, the Mapping Method provides three complementary routes to develop ideas about strategic options:

- Creative thinking (tapping into imagination and intuition, including (innovative) abductive reasoning).
- Inductive reasoning (drawing inspiration from analogical reasoning, best practice benchmarking and other observations).
- Deductive reasoning (using generic strategy frameworks, other theories, and rules as a basis for firm-specific strategic options).

These routes are a clear connection between strategy analysis and strategy development. Together with the key question, these routes help to simplify the challenge of developing a new strategy.

Test Hypotheses: Reduce the Odds of Strategy Failure

The Mapping Method's testing of issue hypotheses and strategy hypotheses contributes to the quality of strategies as it prunes respectively potential issue explanations and potential strategies. Rejection of hypotheses provides opportunities for learning. The Mapping Method is not a linear process but an iterative one with feedback loops. Moreover, testing provides the evidence to persuade stakeholders to accept the chosen strategy and support its execution.

Foundations of the Mapping Method

Standing on the Shoulders of Giants

We build on best practices. For example, strategy as a hypothesis is not a new idea. The Mapping Method contains elements of strategic thinking such as hypothesis thinking, systems thinking, critical thinking and thinking in time. We build on, and aim to extend, the work of leading strategic thinkers (you will find their seminal works in the bibliography). An important pillar of the Mapping Method is the top-tier management consultancy's best practice.

In particular, we build on the valuable 'structured problem solving' method as successfully introduced in management consultancy by McKinsey & Company, and as described in various insightful publications by former employees of this firm. We note that this 'structured problem solving' method incorporates important elements of the scientific method (such as hypothesis development and testing). The Mapping Method differs from 'structured problem solving' in the following ways: a sequential approach and several extensions.

Exploring Problems through a Sequential Approach

The Mapping Method uses a sequential analysis approach to explore problems. Three questions may be asked to explore your firm's strategic problem: What is the problem? Where is the problem? Why does the problem exist? In fact, this is a classic practice of consultants. Nowadays, consulting firms, at least the largest and oldest ones, have accumulated so much experience over time that they typically have seen most client problems before, or at least they have experience with solving similar problems. In such familiar situations, consultants do not need a sequential approach to analyse problems because they already recognize them. Then consultants can directly formulate a hypothesis about a potential solution for their client's problem. This practice is known as the so-called 'answer-first' approach; at the start of a client project the consultants already aim to develop a potential answer (solution) to their client's question (or problem). The so-called 'sequential analysis' approach to problems is needed if the problem is truly new to you. Then you need to develop an understanding of that unknown problem before you can develop any potential solutions. The Mapping Method concentrates on such new problems.

Extensions of the Mapping Method

- The Mapping Method is a translation of the valuable method of 'structured problem solving' to strategy. The applied configuration concept of strategy is based on systems thinking.

- The Mapping Methods explicates three complementary routes to strategy development: creative thinking, inductive reasoning and deductive reasoning.
- The Mapping Method is not only about solving present problems of underperforming businesses but can also be used to discover and seize opportunities in order to increase your firm's performance even further. Both underperforming and well-performing businesses may use the Mapping Method to realize their potential for (further) performance improvement.
- Finally, the Mapping Method has an explicit future orientation. Strategy covers three horizons: short, medium and long term. Therefore, you need thinking in time. You pay explicit attention to your firm's future strategic issues, both future problems as well as future opportunities.

SUMMARY

Content

Strategic choices are the responsibility of business leaders. We distinguish between three challenges of strategy for leaders:

- Develop superior insight into the real strategic issues of the business.
- Make the winning strategic choice to address, or even better, anticipate the real issues.
- Convince stakeholders to accept your choice and support its execution.

There are also some stress factors:

- Complexity and volatility of the situation: too many moving and interdependent parts.

- Ambiguity and uncertainty about the future: no crystal ball.
- Bounded rationality of actors (strategists and stakeholders): no mind is big enough.
- Opportunism of actors: hidden agendas and political games

We outline the limitations of popular approaches to strategy. Conventional strategic planning suits simple and stable environments but cannot effectively deal with VUCA. Experimenting and agility may work well in situations of VUCA. But they are means of strategy, not substitutes for strategy.

The Mapping Method is an effective approach for dealing with the challenges and stress factors of strategy. It contains four integrated processes.

- Stakeholder engagement: engage stakeholders from start to finish, from issue exploration to strategy execution.
- Issue exploration: explore strategic issues to develop superior insights.
- Strategy development: use these insights to develop superior strategic options and make the winning strategic choice.
- Strategy execution: anticipate and remove roadblocks to develop an effective roadmap for strategy execution, and monitor that execution.

The Mapping Method is not a linear process but an iterative one with feedback loops. There are feedback loops from strategy execution back to issue exploration and strategy development. Any gaps between realized performance and performance objectives of the executed new strategy induce issue exploration and new rounds of execution roadmap development and/or strategy development. The processes of issue exploration, strategy development and strategy execution are intertwined and the Mapping Method provides an integrated approach to these processes.

The Mapping Method builds on best practices in strategic thinking. An important pillar is the valuable 'structured problem solving' method as successfully introduced in management consultancy by McKinsey & Company. Our method is a translation of structured problem solving to strategy, and an extension to future strategic problems and opportunities. The Mapping Method also provides a sequential approach for exploring 'new-to-the-world' problems.

Key Takeaways

- Do you operate in a simple and stable world? If so, conventional strategic planning may work.
- With rising levels of VUCA you may benefit from the integrated approach of the Mapping Method.
- Stakeholder engagement, issue exploration, strategy development and strategy execution are intertwined processes.
- The hypothesis-based approach allows for learning and adaptation.
- The Mapping Method is based on best practices of the world's top-tier management consultants but it is customized for people outside these consultancy firms.

Next Chapter

The next four chapters of the book are about the Mapping Method in more detail. While the first chapter applied the Method to a strategic problem, Chapters 2–5 will show the method applied to a strategic opportunity. The second chapter addresses the questions: How does stakeholder engagement work? How could you put stakeholder engagement to work in your business?

NOTE

1. Disclaimer for all cases and other examples in this book: These cases and other examples are inspired by (combinations of) real-world situations, and these real-world situations are stylized, simplified and adapted for fast and easy comprehension. All cases and other examples are based solely on the authors' estimates and interpretations of publicly accessible sources of information. The purpose of these cases is to show how a strategy process based on the Mapping Method may work. Cases and other examples in the book do not claim to reveal how real-world firms and/or persons have actually conducted a strategy process. Moreover, the intent of the cases and other examples is not to illustrate good or bad strategy practices of any real-world firms and/or persons.