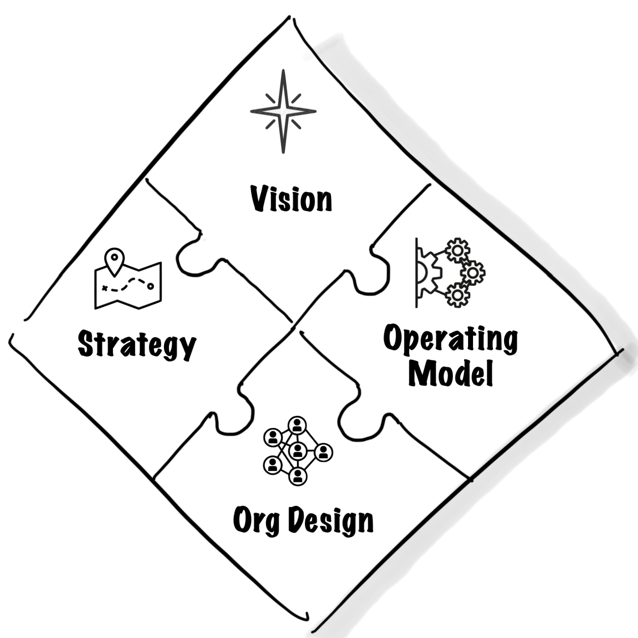
The Diamond of Strategic Leadership.

What growth firms often get wrong about the cadence of strategy work

Vision > Strategy > Operating Model > Organisation Design. Four familiar terms with often loosely understood meanings. Effective CEOs spend the right amount of time on each, at the right cadence. Many firms don't, leading to 'strategic incoherence'.

This is a note about cadence: how leaders of growing firms can most productively allocate their - and their top team's time across the year. Most CEOs understand the vital importance of stepping back regularly from the day-to-day running of their firms to assess the future and to 'think strategically'. But in a surprising number of firms such thinking time is inefficient: episodic, poorly linked to previous such discussions, and disconnected from the design of the organisation which needs to deliver it. This is strategic incoherence. It is common, and it is a strong predictor that well-intentioned strategy work will gather dust rather than achieving impact. In fact, within the broad umbrella of 'strategic thinking', four quite distinct concepts - vision, strategy, operating model, and organisation design, all need space, at different cadences, and in a sequence which matters. CEOs who build these cadences into their year-round calendar have a better chance of achieving strategic coherence, and hence impact. Call it the diamond of strategic leadership.

The Four Interlocking Elements of the Diamond of Strategic Leadership



A strategy offsite usually makes everyone feel quite good. And it's not hard to come up with some strategic-sounding questions to talk about, "Where will we be in 5 years… what could kill us?…". But in a surprising number of firms such gatherings feel disconnected from the day to day life of the business; fun, but episodic.

Indeed, episodic strategy offsites are a bit like handing everyone an (unfamiliar) musical instrument for a day, and expecting to come out with a concert-level performance. True strategic coherence - between vision, strategy, operating model, and organization design - requires constancy. And it needs CEOs to ground their precious investments in strategic activity in a meta-framework which balances them, links them to each other, and to the actions they imply. Here's how:

Vision.

Vision is not strategy. Vision is the destination; strategy the means to get there. Strategy needs to be addressed quite frequently (see below); vision much less so.

A *fully* developed vision, in management-science terms, is actually a composite of mission, purpose and values, as well as articulated beliefs about the future. But at its core, vision is the simply articulated and motivating 'north star' aligning the firm's efforts. It need not say 'how' that is to be attained (or even, strictly speaking, even *be* attainable!), but it should say *why*. It *inspires*. Think of NASA's 'to put a man on the moon'. Disney had: 'to make people happy'.

The last decade has seen much increased thought around the *purpose* of firms, driven in part by a rising Gen Z workforce. The rise of B-Corps is challenging quite fundamental assumptions around the primacy of shareholder value creation. Firms like Patagonia are now successfully fusing business with activism. And even firms in seemingly un-glamourous industries can conjure aspirational visions. One favourite of mine is that of Dutch dairy producer Friesland Campina: "We are fascinated by the power and potential of milk… We aim to help people to move forward by getting more out of milk" !

The related *mission statement* expresses vision as a practically attainable goal or target - ("a computer in every home" - Bill Gates). It is one part of a fully articulated vision, alongside, increasingly, a firm's *values*. Netflix is famous among management theorists not only for its growth, but for its 'culture deck', a kind of manifesto for its values applied to the way it hires and develops its people.

So what do CEOs need to do here? Often not much, as visions should be constant. If they work, they don't need updating each year as strategy does, because their constancy is the point. For many start-up and scale-up firms, the vision is implicit in the firm's founding idea. Some PLCs visit their visions every 5 years. Governments often develop visions for entire nations in relation to perceived epochal change (for example; A Vision for Scotland in the Knowledge Economy). But vision work is more often by exception, not routine.

One area where many growth firms could do more is in codifying and articulating their visions to make the implicit *explicit*. For many young firms much of the vision, fully expressed, is in the heads of the founders, and what little IS written down is in fundraising packs - which are imperfect tools for managers.   As firms grow to the point that the founders can no longer know everybody, so founders find they need almost to 'clone' their internal compass - their decision making frameworks and heuristics, such that their growing cadre of senior managers can make decisions *in an aligned way*, even when they're not in the room.   Writing down a manifesto is a good way to do that, and to crystallise a firm's ethos. Hootsuite and Bridgewater Associates are good examples of the genre.

Strategy

Of the four pieces of the diamond, strategy is likely the most familiar - although, as the author and academic Richard Rumelt recently observed, business leaders often misunderstand the actual meaning of strategy.   Good strategy is about framing and making choices. It stems from the vision, but aims to map it onto the business and its markets; to transform vision into *value.* It addresses the big questions of *where* in the market to play (positioning), *who* to serve (customers, segmentation), and *how* to win (core competencies). And it goes as far as guiding the firm's allocation of resources; capital, effort etc

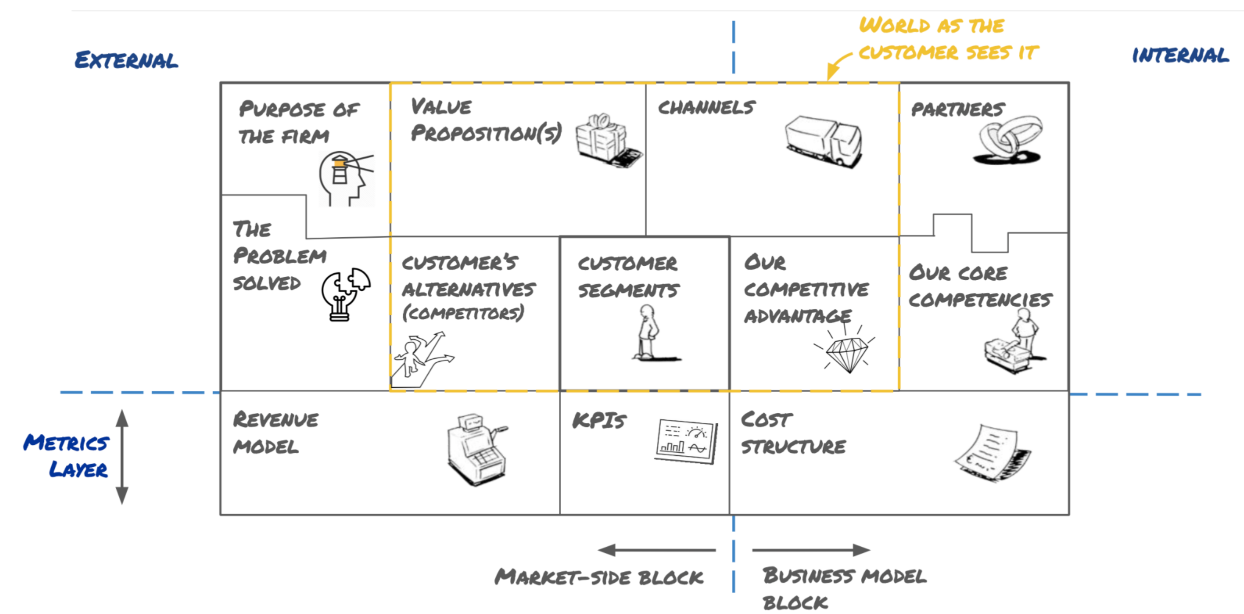
Consequently strategy should be reviewed regularly. Just how regularly is a point of discussion among management theorists, but depends on the dynamics of both the firm and its industry. Anything from 1 to 3 years is normal in my experience, while some recent theories, for example BCG's 'always on' strategy, argue for almost quarterly revision of some elements, especially in dynamic industries or for high growth firms.

Strategy ≠ Strategic Planning. Note the difference between strategy and strategic planning. Strategy should be a heads up, norm-challenging, creative-thinking activity. It shouldn't be overly constrained by a schedule, as events and insights may strike at any time.   It is about *synthesis*. Strategic *Planning* in contrast, is about *analysis* - planning really. It *stems* from the strategy and drives the actual work of the firm for the year ahead. Henry Mintzberg remarked "Planning cannot generate strategies. But *given* viable strategies, it can *program* them; it can make them operational". So unlike strategy, strategic *planning* absolutely should be done to a schedule - annually - and ideally ahead of financial planning, target setting and budgeting; although it's remarkable how often it isn't!

Operating Model

What is an operating model and does it matter if you don't have one? The good news is that you *do* have one; you just may not have thought about it this way. The operating model is the abstract - and visual - representation of the *organisation as a system*, in the context of its market and competitive environment, and of how it delivers value to its customers. It is strategy's oft overlooked cousin. Visual canvases of operating models such as the one below are increasingly being used to shape thinking on things which strategy can easily undercook: the boundaries of the firm, for example (what it does in house and what it outsources) and its core competencies

Exhibit A: Canvas for an Operating Model



The visualisation is more than just a presentational tool: it highlights that a firm's operating model is something which should be *designed*, consciously. Operating models stress the linkages and dependencies between the parts of the system; for example how decisions on outsourcing affect the firm's *core competencies* and vice versa, appraisal of which is often 'underdone' in strategy processes. And by emphasising the interactions - and balance - between the system's constituent parts, it helps engender overall coherence.

Unlike strategy, the operating model view of the firm does not emphasise plan or action. But the operating model is a bridge between strategy (with which it should align) and organisation design, for which it forms the blueprint. Thus the operating model view of the firm is a good complement to its strategy. They are best developed concurrently.

Organisation Design

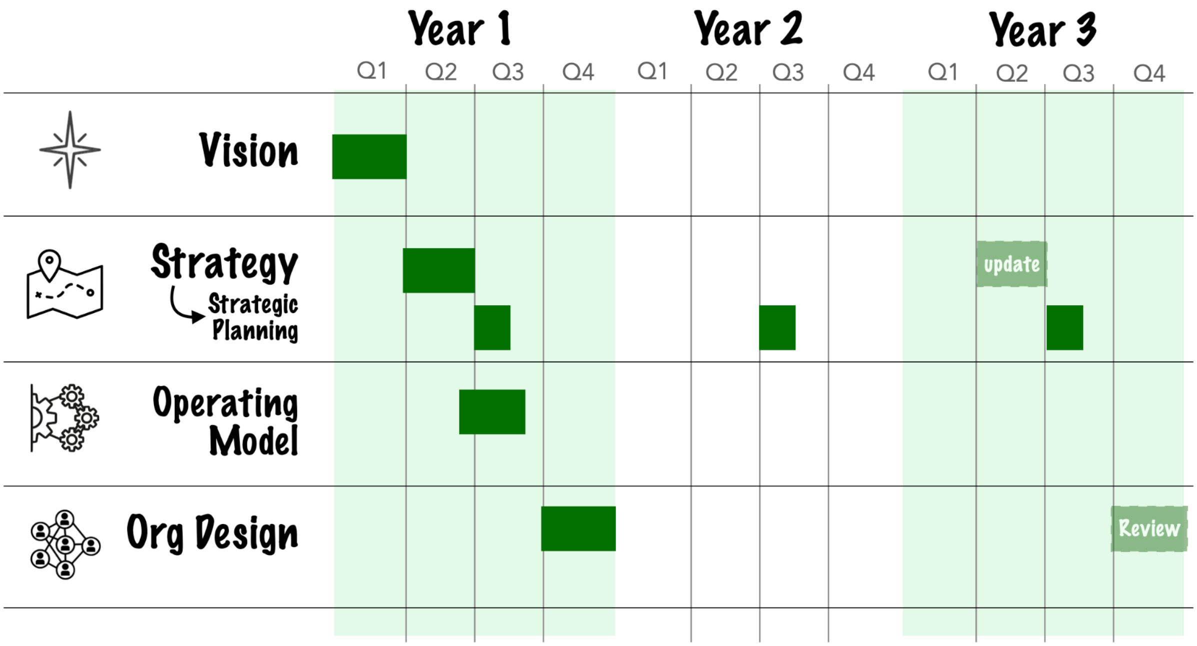
By organisation design we mean not the kind of incremental changes imposed by a senior hire here, or a departure there; but the fundamental review and (re)design which follows logically from the topics above. I've written about the *process* of organisation design - and in particular about how best practice has changed over the last decade - elsewhere. Here the key question is simply *when* or *at what cadence* to take it on. This matters because of the inherent costs involved; in disruption, uncertainty and, potentially, in staff morale. Evidence across industries suggests that CEOs tinker too much. In one recent McKinsey Survey, less than a quarter of respondents affected by reorganisations felt them to have been successful. So when *should* CEOs act?

First, a change in strategy *always* requires at least a review of the organisation's fitness-for-purpose to deliver it. If this sounds obvious, consider the following example: In early 2021, a major British food-sector plc unveiled a beautifully crafted new strategy to the city, with a set of new strategic priorities, each underpinned by one bold initiative. The strategy was well received, but by Autumn it was clear the firm was struggling to mobilise against the initiatives at the same time as delivering 'business as usual', leading them to seek outside support. Staff complained of lack of bandwidth. Managers struggled to get 'traction' for the strategic initiatives. One look at the organisation structure of the firm showed why: it was unchanged, and entirely designed to deliver… business as usual!   This is *strategic dissonance* - a strategy fundamentally misaligned with the organisation supposed to deliver it. It is a short route to failure, and yet is surprisingly common.

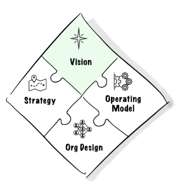
Second, small and high-growth firms have their own dynamic driving the need for organisation redesign as they hit certain milestones or rubicons of scale. Passing 100 staff for example, and again at around 300; becoming a multi-country operator for the first time, or multi-product, or completing a first acquisition. All these are triggers for redesign.

Effective CEOs impose a meta-framework on their strategic work at all levels. They cover each of the four quadrants of the diamond of Strategic Leadership: vision, strategy, operating model and organisation design; each on its own cadence.   An illustration of the resultant cadence of strategic work over a three year timeframe appears in Exhibit B below:

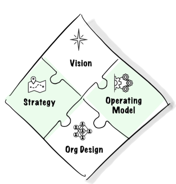
Exhibit B: Illustrative cadence for addressing all four pieces of the pyramid over 3 years



So to sum up, cycle through all four pieces of the diamond of Strategic leadership - over a strategic agenda of several years - to ensure your 'step back' time is efficiently spent, and that your organisation has strategic coherence

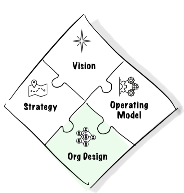


Vision. Do once. Go deeper if something fundamental has changed in the world the firm inhabits or in its purpose. Otherwise go further than you probably have already in *codifying* what the vision *means* for managers up and down the firm. Write a *manifesto* to crystallise the firms ethos



Strategy. Every 1-3 years depending on your stage and industry. Note, do not confuse strategy, which is a creative process of *synthesis*, with strategic planning, which is about *analysis*. Strategic planning *should* be annual, it should drive detailed goal setting around the firm's teams, units and functions, and it should precede financial planning!

Operating Model. When you do strategy, articulate the operating model as well. This is the oft overlooked step which bridges from strategy to organisation design



Organisation Design - should always be reviewed in light of a new strategy. Growth stage firms when they cross certain scale milestones. Otherwise resist frequent tinkering as it saps productivity!