Issue-Driven Strategy Formation
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Introduction

Much has been published about the art of Strategy in a business context. Many business units and large groups have a well practised Strategic Planning process. It is increasingly common for business leaders to have had the benefit of a spell at Business School. Yet despite all this, there remains a nagging doubt that all is not well when it comes to making choices about strategy and bringing them to successful fruition in the business results.

One can think of high profile examples such as Marks & Spencer, BMW/Rover or BTR. Why for example, did Marks & Spencer continue to expand floor space selling dreary men’s suits at a time when fashion was moving away from suits and the High Street was polarising into low cost and designer label positions? Or one can reflect on just how many leadership teams spend all their energy making the business smaller rather than making it better or bigger; how many pursue with such vigour the acquisition trail that research has repeatedly suggested more often destroys shareholder value rather than generates it.

This paper is based on the premise that one of the important missing ingredients is sufficient knowledge and skills of how to form Strategy. It is not particularly difficult to learn the concepts. Business leaders usually know their industry rather well. So it is not so much a question of what to do but how to go about the Formation, Planning and Deployment Processes. The paper describes an Issue-Driven approach to Strategy Formation that has been developed over many years working with a variety of businesses, both large and small, in several industry types, both manufacturing and service. The approach makes use of commonly available theory but makes no claim for academic rigour. Neither does it claim to be new. It is simply born out of many influences together with practice over enough years to know it is robust and effective.

So this is for Leaders of Business Units who wish to break out of their current position and for Leaders of Business Groups who wish to challenge their Units to achieve stretching targets.

Why is it important

Markets are more competitive than ever. The effects of globalisation and deregulation have been with us for sometime now. The advance of internet technologies is accelerating these effects and apparently increasing buyer power. Not only are life cycles continuing to shorten but the business environment appears to be less certain. All in all it is a much more turbulent world in which to do business.
The response of some to this predicament is to focus on the margin and the bottom line result. One can argue that this is partly caused by an unbalanced drive from the shareholders for short term bottom line results rather than long term value creation but that is for a separate discussion. Regardless of the cause, many business leaders have almost lost, perhaps never had, the art of growing businesses organically.

Another common response is to secure help from Expert Strategy Consultants. This is undoubtedly a sound response in certain circumstances but for most businesses it has significant disadvantages. It is extremely difficult for senior people in the business to really own the result. It may prescribe a strategy that does not recognise the motivations and limitations of the people in the business who have to do the implementation. Far from developing the skills inside the business it risks actually dis-empowering senior people. It may just be ignored.

The response of others is to pursue best practice. This comes in various guises from benchmarking to quality models that purport to set out the way a business should work. However there are two problems with the best practice movement. The first is that it is of little use for leaders in an industry, only for laggards who wish to catch up. Secondly it is inherently indiscriminate, tending to prescribe improvement in all areas. Strategy, by its nature requires discriminating choices to be made that lead to advantage. There is no business that has sufficient resource or stock of management talent that can pursue all areas of possible improvement in a timely and successful manner.

The crucial point here is that strategic management is different from operational management. It requires different processes, skills and mental outlook. The discussion in this paper concentrates on one aspect of strategic management, namely the process.

**Why an issue-driven approach?**

Before answering the question, “Why Issue-Driven?”, it would be as well to define an “Issue”, which is any one of a:

- **Problem** - the most obvious candidate which can take many forms like a lost customer, a new competitor, new legislation, etc.

- **Opportunity** - such as, a high growth segment or a change of management at a key customer, which is just as much an Issue, because unheeded it becomes a lost opportunity.
Uncertainty - also an Issue because, for example, alternative outcomes such as combinations of different competitors by merger or acquisition may affect us very differently.

Controversy - if, for example, two people in the leadership team disagree strongly about a matter of apparent importance there will be good reason for this. Several possibilities come to mind, such as unsurfaced assumptions, different experiences of success or simply a personal agenda. Whatever it is, something is going on and it is an Issue.

Using this definition of an Issue means that we have a simple and comprehensive tool for collecting up what is or might be going on in the business and in the business environment. This helps us to:

- Deal with complexity, incomplete data and uncertainty – there is no need at the start of the process to understand the Issues, only identify them.
- Scan what is going on in a comprehensive way – in strategy the most important Issues sometimes stem from very weak signals.
- Anchor all the work in the unique circumstances of each business – starting from assumptions or prescribed answers has inherent dangers.

Handle the politics – yes, strategy formation is a highly political process. It is subject to the personal agendas, mental models, preferences and limitations of the leadership group. The outcomes of the discriminating choices may affect the players and their power, status and rewards in different ways. Attempting to form strategy in a sterile environment that tries to evade this is doomed to failure.

So what is needed is a Process and some practical Tools to identify the Issues, sort out which ones are important, work on these to make sure they are clearly defined and then devise responses to them. This is the Issue-Driven Strategy Formation Process that is depicted in fig 1.

Very importantly, if the Leadership Team learns and adopts this approach and perhaps receives some external process input to stimulate thinking, many of the problems outlined earlier can be overcome. The focus can be on growth. Full ownership is ensured. Skills are developed. The outcome can be integrated into
the Processes that follow, namely Budgeting, Programme Management (the process for managing the Strategic Action Plans) and Deployment (the process for aligning performance behind strategy through measures and targets).

**The Formation Process**

Figure 1 represents the formal process round the left-hand perimeter of the diagram. In a Group context, there should be some Strategic Planning Guidelines that set out freedoms and constraints for the Business Units as well as a timetable and definition of the minimum deliverables that each Unit should produce for a Strategy Review.

The Data Collection and Analysis takes various forms but typically is a situation review that includes Financial Performance over a relevant period together with analysis at three basic levels, namely the Industry, the served Markets and the Business itself.

The analysis techniques can be learned from books or from courses. Out of this analysis, options are supposed to emerge that can then be evaluated and so the process continues.

In reality, Strategy Formation is much more confused than that. It is based on analysis and intuition. It is political and not readily amenable to a simple linear process. It needs to secure useful insights from the noise and fog, making discriminating choices that are agreeable to the leadership team.
Issue Recommendation

The Issue Management Process aims to ride these uncomfortable waters rather then calm them. It starts with Issue Recognition, as illustrated in fig 2. This brings purpose to the analysis by making clear the reason for doing it – namely to recognise the Issues that the Business faces. A hidden skill is to decide what analysis to undertake so that we prevent paralysis by analysis but nevertheless find the Issues. In addition, visioning and scenario techniques may be chosen that aim to illuminate possible futures. Special exercises may be chosen to explore the potential for technology to change business model or the industry. Care is taken in deciding who should be included in the Issue Recognition Process. If it is the same team following a familiar process the same outputs should be expected as the last time!

Howden Group is world market leader in industrial fans. When the Chief Executive decided to use this approach to reshape strategy he recognised the need to put the process in place in all the Regional Businesses around the globe. Once the Regional Heads were bought in, a sizeable group was gathered from all the businesses for an extended workshop. Each Region had a range of products serving several market segments. The pivotal issue concerned the segmentation architecture; what were the segments and which ones were global and which ones were regional. It was only when a strong hypothesis was
developed for this Issue that all the other work could progress with mixed teams working in parallel during the Workshop on the different segments. As work progressed through the planning process additional new insights were secured, for example the fundamental distinction between segments that were successfully served by very high reliability, custom-engineered fans and those that needed to be served by pre-engineered and standard fans from a short lead-time, low cost source. Thinking was later clarified on the differences between being a product supplier and being a service provider.

Issue Recognition is not just a brainstorming exercise. To the contrary, it is a strategic diagnosis that searches for things that are not at the front of the mind as well as capturing the obvious. If you accept that diagnosis is the most difficult and important part of strategic decision making, a comprehensive Issue Recognition activity is the nearest it is possible to get to a neutral diagnosis that does not already contain implied solutions. Otherwise, if diagnosis is by an IT specialist, you get an IT solution; if it is done by reference to a model of best practice you may get an irrelevant solution, etc.
Issue Shaping

The result of this activity is inevitably a long list of Issues, too long to act upon, usually labelled with cryptic names. So the next steps are to reduce the list to a manageable number of the most important ones and to define them precisely. This is Issue Shaping, the output of which is the agreed list of Key Strategic Issues and a rigorous set of Issue definitions.

A range of activities is undertaken to get through the shaping process including a basic test to filter out the non-strategic Issues from the Strategic Issues. The former should not necessarily be ignored but they may need to be transferred to a different, operational, agenda that is owned by somebody else. Each Issue that remains can be tested against chosen criteria to assess how significant the potential effect could be. It is then wise to assess the probability that the effect will actually occur. Clearly some Issues will score 100% here because they have already occurred, for example an important contract has been lost. On the other hand we may have been interested in a technology that has been promising to emerge in a market-ready condition for several years but is still no nearer reality; the probability that any effects will occur, however big, should be rated much lower. Fig 3 illustrates this relationship between potential significance of the effects and probability that the effects will occur.

Even after this work has been completed, the remaining list is likely to be too long. Devising a response to each that receives the full weight of a properly sponsored strategic action plan will be beyond the capacity of the business to complete. This is a time for the discriminating choices. The list must be cut-off, if necessary on an arbitrary basis, to keep it within the limits of management capability, investment funding, and disruption to operations, etc.

In figure 3 it is clear that Issue 8 is unlikely to make it to the final list because of the very low significance of the effect. However Issue is also unlikely to be worth working on despite its very high potential impact because it has been assessed as unlikely to happen. Issue 7 looks an unlikely candidate too.
The final test is to ask “Does our analysis match our intuition, if not why not and what evidence do we need to close the gap?” The result is the list of Key Strategic Issues.

In the case of Concentric Controls, a medium sized Engineering Company, this brought the realisation that even after a conventional cost cutting programme the business was far too complex and would not be able to build the necessary strengths in all its activities. It had a range of products in several market sectors encompassing manufacturing volumes from high to very low. Inventory, lead times, quality and margins and were all unacceptable. The Issue Recognition and Shaping process enabled the team to rise above a detailed analysis of the many problems to hypothesise about which market, product, manufacturing combinations would be the basis of a successful strategy.
Once the List has been reduced to the manageable number, the leadership team defines each Issue in some detail and with careful choice of language. This is the most difficult part of the process that tests people significantly. Those who persevere realise that effort is more than justified by the result. When the Issue is just a cryptic name, it is most likely that there are several different interpretations round the table of what it really is. If we make the effort to share our perspectives and assumptions, check for evidence and then produce a definition that everyone signs up to it is a huge step forward both in clarity of thinking and team alignment.

Table 1 gives an example of an Issue Definition for a medium sized manufacturing business. This is one of a set of Issues that made it through all the filtering and list reduction but the definition below resulted in it being put on hold for a year. It was realised how difficult it would be to manage the response at the same time as working on all the other Strategic Action Plans. Without the Issue Definition, much time would probably have been spent by both the management team and the Board debating what for some seemed like an obvious thing to do while others had grave misgivings. It is even conceivable that momentum would have built up behind the idea to a point that it was taken forward at an inappropriate time with significant risk to the business.

<table>
<thead>
<tr>
<th>Issue Name:</th>
<th>Low Cost Manufacture</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description:</strong></td>
<td></td>
</tr>
<tr>
<td>• The business is under price-down pressure, even with little competition, including contracted price reduction milestones</td>
<td>• Our factory costs in the UK are increasing with pressures from several directions, including additional Engineers, material costs, energy cost, estate costs, employment costs, environmental costs</td>
</tr>
<tr>
<td>• It is expecting more competition for its niche products</td>
<td>• No grant aid or incentives are available in the current location</td>
</tr>
<tr>
<td>• Mix changes are tending to increase the labour content of the product</td>
<td>• Low cost locations are still much cheaper but the rate of cost escalation there is much higher</td>
</tr>
<tr>
<td>• Labour is becoming more difficult to source</td>
<td></td>
</tr>
<tr>
<td><strong>Success Definition:</strong></td>
<td></td>
</tr>
<tr>
<td>• Slowing down the impact of the price cost pressures</td>
<td>• Get price low enough to displace rival products that use a cheaper technology at an acceptable margin</td>
</tr>
<tr>
<td>• Increased contribution despite the pressures</td>
<td>• Create headroom to win selected strategic bids at an acceptable margin</td>
</tr>
<tr>
<td>• Get ahead of the cost reduction curve</td>
<td></td>
</tr>
<tr>
<td><strong>Barriers to Success:</strong></td>
<td></td>
</tr>
<tr>
<td>• No experience of overseas operations</td>
<td>• Large cash impact</td>
</tr>
<tr>
<td>• Customers will want a share of the benefit</td>
<td>• Redundancy cost</td>
</tr>
<tr>
<td>• Operational complexity</td>
<td>• JV Partner will want a share of the benefits</td>
</tr>
<tr>
<td>• Risks to quality and delivery achievement</td>
<td>• Finding a JV Partner</td>
</tr>
<tr>
<td><strong>Enablers:</strong></td>
<td></td>
</tr>
<tr>
<td>• Follow a customer who is doing the same</td>
<td>• Secure external help</td>
</tr>
</tbody>
</table>
Table 1: Example Issue Definition

Most of the fields in the table should be self-explanatory. The Shaped Question is a way of crystallising the issue. It is difficult to shape the question without first going through the process that completes the other fields in the table. It is of course the process of discussing the Issue in a rigorous way that is valuable, not filling in the table.

Issue Resolution

From here the task is to identify what responses the business should make to these Key Strategic Issues. In some cases this may be very obvious because the Issue definition work has brought such clarity to the matter. In others we may face complex choices. Hence this part of the process is called Issue Resolution. It is at this point that real options become apparent. Issue Resolution includes the steps of: gathering evidence; evaluating and selecting options for a response to the Issue; planning actions to put the response in place; and scaling the effects in high level financial terms that the response will have on the business. On occasions, some of the actions are “no-brainers” that should be pushed directly into implementation. The final deliverable is a set of Strategic Action Plans that will bring the proposed response to each Key Strategic Issue to reality in the business.

In the Concentric Controls example mentioned above, the proposed responses included a managed withdrawal from the low-margin high-volume products and a divestment of the very low volume products. The combination of the two enabled Sales and Engineering effort to be focused sufficiently to get results and Manufacturing to be restructured round batch processes organised in cells.

The combination of good operational controls on inventory plus the strategic restructuring meant that the business was highly cash generative throughout the implementation. This “bought time” to grow the top line and bottom line results.

This Issue Management idea was conceived for use in Business Strategy Formation. However, it can be used at any level in the business where there is
complexity, uncertainty or a wide variety of opinions. So this includes a higher level of strategy for a cluster of businesses or a lower level of inside the business, looking at, say IT or Manufacturing Strategy. The Issue Management Process is essentially the same; the differences are in the choice of analysis tasks, the criteria for evaluation and the people who are included.

The Strategy Review

The process usually leads to a Strategy Review at which those who have been working on the Strategy present their proposals and argue their case to their masters. The review may be by a Board of a single business, by Family Owners, a Divisional Office or Group Headquarters. It matters not who the players round the table are, the dangers are similar.

Senior people are involved and there is often a lot going on in the room. Perhaps to caricature:

Business Unit managers are bidding for investment and positioning for future budget and bonus negotiations.

The “bosses” are seeking to ensure guidelines have been met, risks are being assessed and challenges made.

Everyone is viewing the proposals through the lens of their own preferences and preconceptions.

Hopefully, some serious discussion occurs about whether the proposals make good strategy and will achieve the desired outcomes.

Did anyone say it was not a political process!

Two morals can be drawn from this. The first is that it helps to make clear what the objectives and protocols are for the Strategy Review. If these are explicit the review should be more productive.

The second, and more important, is that there should be an interaction between those doing the formation work and those who will carry out the Review at the point when the Key Strategic Issues have been listed and defined. This is before any Issue Resolution work has been done. This is the point at which the problems are defined and the agenda for change is set for the business. If the Key Strategic Issues are agreed, further work can be built on agreed presumptions.
Some of the difficulties that occur at Strategy Reviews are caused because people are competing their own preferred solutions when the problems have not even been agreed. The interaction may be another meeting, call it an Interim Review, if you like, or it may be done by other means, but experience has shown this to be a valuable enhancement to more traditional practice.

**Strategic Plans and Budgets**

An important potential hazard to be wary of is the relationship between the Strategic Plan and the Budget. The Budget should be the first year detailed revenue, cost and cash interpretation of the Strategic Plan. Reality means that there will be pressures to achieve specific numbers in the budget and each Group or Company has its own style of doing this. What must at all costs be avoided is a situation where the pressures to produce first year numbers make a nonsense of the Strategy that has been previously agreed. This is not to say the pressure is wrong but to insist on a grown up dialogue about the consequences to the Strategy if the Budget is cut or the consequences to the Budget if the Strategy must prevail.

Failure to have such a dialogue will destine the good work on Strategy to the bin. No one will take it seriously. Even the things that could be implemented within a restrictive budget may not be and the next time the Strategy Formation work comes back onto the agenda it will be treated as an irrelevant nuisance. The Strategic Plan will be another one of those ritual documents that gets filed instead of being a living guide to operational decisions.

In the Howden example, there was some complexity to the budget because of the mix of global and regional segments in an organisation that was at the time Regional. Once this hurdle had been crossed, the principal global business serving the Power Generation market moved forward with new strength and particular success in North America.

**The Practical Realities**

So how does it actually work? Good Planning processes reflect the particular circumstances of Businesses or Groups and the style of their leaders2. So this approach is customised to build on the good features of what exists whilst bringing new energy, ideas and rigour. The first steps are to decide what analysis and visioning work should be undertaken by whom, how much can be
done in amongst day to day work and how much is best done in a workshop environment.

A series of workshops are then designed with gaps between to allow for additional work and reflection. It can be designed to work for a single Business Unit or for a group of several Business Units with the Units sharing certain workshop activities and undertaking other activities on their own. The scale of the job is very much a function of size, complexity and skill levels. More Business Units or more market segments add scale. If people are not practised in a well-conceived planning process, more work is required.

When the approach was customised for Allied Domecq’s Region that covers Central and Eastern Europe, considerable emphasis was put on minimising the time in workshops. It is a Region in which it is neither quick nor cheap to get people together and the management team had previously spent time in workshops working on organisational matters. So each of the Country based Business Units were briefed to do basic analysis of threats and opportunities in their business environment, as well as establishing Brand Positioning and Business Positioning against Competitors. Other exercises, for example on segmentation and competence were done in mixed teams in the Workshop. These exercises were chosen and designed to get the benefit of interactions in what was a very heterogeneous group.

Once the teams had done the hard work of reducing an enormous list of Issues to a set of Key Strategic Issues for the Region, it enabled them to establish a small number of cross Region workstreams on:

- Increased Category and Product penetration strategies
- Innovative Consumer Segmentation and e-Business
- Advanced Customer Management.

More than this, they returned home with a clear view of additional Issues that were important to their Country based Business Units and the tools to manage these Issues to a result.

The streams progressed well through implementation and business results were delivered. For example, in improved consumer understanding and segmentation the Region maximised media focus on certain segments. This not only reduced overhead costs but also increased market penetration.
One important feature is that the process can be exercised fast. The record to date is four working weeks for Hewden Stuart, the leading British Plant Hire Group. The Group was in the unusual circumstances of having a newly arrived Chief Executive and a board who recommended a takeover offer before the CEO could get his feet under the table. This left a very short window in which to clear heads and rally round strategy before the new owners, Finning International, arrived. It was also a very uncertain period because it was not known whether the shareholders would accept the offer or not.

So a Group of seven Business Units went from a cold start in the first workshop to delivery of agreed strategic plans in difficult circumstances. While there was some trade-off to rigour, it made a big difference to the start of the relationship between the new owners and the incumbent leaders of the Group. Both parties quickly agreed the agenda for discussion and moved on together to take the business forward. This experience demonstrated very clearly that speed is an inherent capability of the approach.

Really good results can be achieved first time round this process. Examples would be: clarity emerging from confusion; energy behind the agreed direction increasing significantly; investment allocation decisions becoming easier; measurable action plans going forward. However, those who have followed this path often realise that it is only by the third time that the skill levels have fully developed and the real value of the process is understood. Participation in the formation process becomes a really good vehicle for learning. To help this growth and learning, the process can be seeded with different content each year to stretch the thinking further, such as more in-depth exploration of Value, Core Competence or Breakout Strategies.

Facilitation

Important though the process and tools are, they are not complete without skilled facilitation. This is what brings life to it all, generates the energy and allows business leaders to believe they have enough influence over their destiny to make a difference. It actually involves switching as appropriate between the roles of Mentor, Coach, Facilitator and Process Designer at different stages.

It is not difficult to explain the requirement. For example, various dilemmas must be constantly addressed:

- Bringing independence and challenge, but not so much that it causes rejection
- Adapting process design, and delivery to the particular business and the
people involved but without loss of integrity
Distinguishing personal agendas from genuine needs to explore ideas.

It is possible to list some of the features of good facilitation in these circumstances.

- Quickly establishing rapport and credibility with those involved
- Making the experience serious fun; so that the intensive work rate can be maintained for long days and yet people still enjoy it
- Being seen to work with all the people in a way that minimises the effects of status and power
- Helping people to relate the concepts to their own experience and language
- Coaching people at whatever level is necessary, from strategic value to using the tools on a laptop.

Explaining the value of the facilitation is much more difficult. It is process value rather than content value. Everyone is used to the idea of an expert, who knows about a topic, gives advice and recommends solutions to problems. This is content value. It is the equivalent of giving a fish to a hungry man. Process value is more like helping a man learn to catch fish. Clearly the former is just right for someone who is starving and who can’t catch fish. In most circumstances it is inappropriate, because it dis-empowers and creates dependency.

So what is process value? There is value in creating energy and the space in which decisions get made. There is value in making visible that which was buried and in stimulating new insights. There is value in acquiring the practical “how to” skills, in simplicity and focus; in clarifying what is going on within a leadership team and enabling them to have real dialogue that produces an agreed result, not just ritual discussion; in producing actionable plans; in improving credibility and confidence. This is all process value. It is the delicate task of not just resisting the temptation to take ownership of the result but actually increasing the feeling of ownership for the result among the leadership team. They are making new “rules of the game”, not just working within (or round) the existing “rules”. 
Conclusions

Clearly there is more than just the Issue Driven Strategy Formation Process and its Facilitation that has contributed to successful results. However, it is safe to claim that they played a pivotal part by:

- Delivering the Process Value that is described above, as well as
- Freeing up the thinking
- Giving people a shared language
- Accelerating learning

It is also safe to conclude that the whole process is robust, having been successfully applied in a variety of business environments, manufacturing and service, small businesses and global groups of companies.

A Final Thought

What next? is an obvious question. With time compression continuing and increasing risk of a discontinuity in your market it must clearly be worth considering a move to real time Strategic Management. There is evidence that this is already happening in businesses that are concerned with information and telecommunications technologies. But why wait until you are compelled to do this? Why not get ahead?

To do so requires two processes to be established in the business. The first is a Deployment Process that lines up operational measures of performance with the strategy and gets people behind these. The second is the Issue Management Process. This is a proven process, both when used in Strategy Formation as well as in the management of complex projects. It needs to be embedded in the business with suitable escalation, decision-making and action guidelines.

Add to this management of the Strategic Action Plans through monitoring achievement of milestones and benefits.

Finally, it is safe to assume that there are basic financial controls in the business. These four streams of information can be brought together in the “Business Cockpit”, illustrated in figure 4.
This idea is not the same as the balanced scorecard. It has two quadrants that are concerned with the future in particular sensing the future in real time through the Emerging Issues. In addition, it also spans strategy and top level operational data.

It should not be assumed that the Issue Management Process could be put in place instantly. Some practice will be required off-line in the privacy of the Strategy Formation Process, before venturing out into the business with it. Once a deep enough understanding of Issues and Issue Management is gained, others can be trained to work an Issue Management Process throughout the business.

Given robust processes feeding into the Business Cockpit this promises real opportunity to give a business the flight controls it needs in a turbulent environment.

- The Financial reports tell us about what has happened
- The Operational measures tell us about what is happening
- The progress against Strategic Action Plans tell us about how we are attempting to shape the future
- The Emerging Issues tell us about what may happen in the future
It is these processes that will underpin the wisdom to adapt to the changing business circumstances without doing it so frequently that the organisation suffers constant whiplash and initiative fatigue.

References

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5. Putting the Balanced Scorecard to Work, R S Kaplan & D P Norton, HBR, Sep-Oct 1993

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