2014

How Winning Strategy Works and What Is It Really?

Why Strategic Planning Is not Strategy?

Roger Martin

"In a nutshell, strategy is choosing to do some things and not other things."

27. BOOK OF THE YEAR

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Introductory word

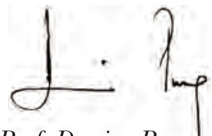
The Book of the Year 2014 is centered around the brilliant lecture of Professor Roger Martin on strategy. The first sentence of the cover text of his book Playing to Win reads: "Strategy is not complex. But it is hard." To a highly interested audience of one hundred and sixty executives, politicians, consultants, and professors of management from more than twenty countries, he explained why this is true.

IEDC was able to invite Prof. Martin – one of the most influential management thinkers in the world, author of several bestselling books and advisor to CEOs of the most successful companies in the world – due to the partnership with Nova Ljubljanska banka, which is celebrating its twentieth anniversary and highlighting the event with this gathering. In doing so the CEO of Nova Ljubljanska Banka, Mr. Janko Medja, has memorialised just how important the issue of strategy development is for his bank and beyond.

Prof. Martin was for fifteen years the Dean of the Rotman School of Management in Toronto, one of the most innovative management schools in the world, and was therefore in his element delivering this valuable presentation to IEDC-Bled School of Management. This Book of the Year also deserves special attention due to the fact that the Prime Minister of the Republic of Slovenia, Dr. Miro Cerar, agreed to open the Presidents' Forum with his views on the strategy of Slovenia and the mission of his government.

Dr. Cerar, in particular, will agree with Professor Martin on both that strategy need not be complex, and also that it is hard. Professor Martin agreed to lead the panel discussion to address "winning aspirations", "where to play" and "how to win" choices. We therefore invited four prominent leaders to present their experiences and the challenges they face: Mr. Ali Pandir, Chairman & CEO of Erdemir Group, the biggest steel company in Turkey; Mr. Janko Medja, President of the Management Board, Nova Ljubljanska banka, Slovenia; Dr. Balz Hösly, Chairman, Greater Zurich Area, Switzerland; and Mr. Gazmend Haxhia, Albanian entrepreneur, President of A.S.G. and one of the few selected members of the Young Presidents' Organization worldwide.

The 27th Presidents' Forum was an inspiring day at IEDC. I also wish you much inspiration reading this Book of the Year – and in developing and implementing your organisation's strategy.



Prof. Danica Purg
Dean and Director

Opening Address by Dr. Miro Cerar, Prime Minister of the Republic of Slovenia

Your Excellencies,
Ladies and Gentlemen,

It is my honor to open the 27th President's Forum of the IEDC-Bled School of Management and speak about the importance of strategy. Our current times, with increasing economic interdependence between countries and organizations, the shifting balance in the world economy, many technological changes and various security threats, seem to be more challenging than ever.

The dynamic and uncertain competitive environment of the 21st century calls for strategic flexibility and leadership that is visionary, proactive and — if I may borrow the idea of today's key speaker Prof. Martin — not afraid to step outside the comfort zone and make hard choices to find and carry out the true winning strategy.

Slovenia's new government set a clear mission, vision and goals for the country at the beginning of its mandate two months ago. The main mission of the government is to restore people's confidence in the state institutions and other fundamental pillars of our society. Our mission is primarily to bring about political stability and to foster a new model of development.

The government is striving for sustainable development in all areas. Sustainable development is our long-term vision; it means that our country intends to operate with respect for both current and future generations. Only respect for people, culture, our history and our natural resources can make possible the development of both the individual and society as a whole. Slovenia and its citizens must come to embody an open, cohesive and confident society.

To this end, the state must become and be perceived as a key support in the promotion and ensuring of development in the broader public interest at all levels, from the individual to that of diverse social and non-governmental groups such as business entities that operate with great corporate social responsibility.

The state, in its relations with its citizens and different social groups, should be responsive and responsible. It must act according to legal norms and it has to be proactive and alert to the problems and needs of its citizens and business community. Our strategy focuses on five main pillars:

1. *Strict adherence to the principles of the rule of law as a condition for the just order and the normalization of the overall situation;*
2. *Ensuring a predictable, transparent and above all welcoming and easy-to-do-business environment for the development of a successful and socially responsible economy;*

3. Providing an environment that enables civil servants to develop strong professional potential and quality public services;
4. Fostering an open dialogue with civil society to eliminate systemic anomalies through participation of active citizens;
5. Ensuring a healthy, innovative and competent society that enables a high quality life for all.

Ladies and Gentlemen,

With its goal of overcoming current challenges, Slovenia has decided to take decisive measures and step out of the comfort zone. Certain hard decisions have already been made in this regard. According to Prof. Martin, these are also components of winning strategies.

In addition to strategic flexibility, innovative thinking and proactive leadership, Slovenian development strategy in those complex times needs constructive cooperation of various actors internationally. At home, we need to reopen constructive dialogue with all social partners in order to restore political stability, promote a business-friendly environment and ensure the welfare state.

I wish you all a productive and successful forum. Thank you.

Opening Address by Mr. Janko Medja, President of the Management Board, Nova Ljubljanska banka

Dear Prime Minister,
Dear Dean of IEDC-Bled School of Management,
Dear Mayor of the most beautiful little town in the world,
Your Excellencies,
Ladies and gentlemen,

I am privileged to speak at today's conference. Three months ago, Danica and I started thinking about how I could contribute to the discussions of this year's Presidents' Forum. I would like to tell you briefly why I believe discussing strategic decisions and their execution, as well as the competences that are needed to implement them, is important to all of us.

First, I think that this is an important topic for every leader. I started my career 17 years ago as a client relationship manager in a small bank. Then, mainly in an international banking group, I held various management and leadership positions, including on the level of management board. In the past few years I have been involved in crisis management, redundancy programs, and other less pleasant aspects of management and leadership. In all those years I learned a lot. But as a leader I see the goal still ahead. Thinking about what I want to achieve, I believe one key aspiration must be to consider what legacy we leave behind. One of the most important answers is to build a sustainable organization that can weather storms in the environment and constantly reinvent itself so as to win against its competitors. I do not have days or months in mind – I am talking about sustainability over decades. We know that excellent companies pass the test of time thanks to the systems, cultures, and processes that they have – including their strategic choices. Enduring organizations have learned how to make correct strategic decisions and execute them appropriately.

Second, strategic choices are important for Nova Ljubljanska banka, the institution that I lead. It is one of the top three players in six markets of former Yugoslavia. The group employs over 6,000 people and has assets on its balance sheet worth over 12 billion euros. But I must be honest about the past. Two years ago, when I joined, NLB was losing our fight for clients, and we had to turn it around. We were lucky that the bank's owner, the Republic of Slovenia, recapitalized the bank. We have the responsibility to repay the state aid in the future. But when we look to the future, recapitalization is not a key. The key is the operative profitability of the company, sustainably making enough positive results so that we will never again need a recapitalization by the state – as this one was the last one possible. From now on, the bank must be profitable enough operatively to *ride out all future storms by itself. Therefore, after two years of heavy-duty restructuring (we cut costs by 20 percent – and we have increased revenues by 25 percent over the last year), we are now profitable enough and have the loss-absorption capacity to survive downturns. Now we must start thinking in strategic terms. That is why it is important for us to develop a competitive capability to make and execute strategic choices and find ways to beat our competition.*

Thirdly, NLB has a significant presence in our markets, and we are close to hundreds of thousands of clients; so we understand how some companies make, or do not make, strategic choices. We have seen many companies go bankrupt, not because of operative mistakes, but because of bad strategic decisions or the lack of such decisions.

We believe that there is huge potential in our region, in its companies and individuals alike. It is possible for us to be successful in the international race because we have examples of organizations that have done so. However, our strategic decision-making and strategy execution competences are on average modest. Therefore we are proud to be partnering with IEDC in the context of this important event.

I believe that strategy is a very important tool in the CEO arsenal. Let us build that competence and use it for the benefit of our clients and the competitiveness of our economies.

Thank you for being with us.

WHAT IS STRATEGY? THE FIVE KEY STRATEGY CHOICES

Prof. Roger Martin
Martin Prosperity Institute, Rotman School of Management, University of Toronto, Canada

Dear Mr. Prime Minister of the Republic of Slovenia,

Dear Mr. Mayor of Bled,

Dear Danica,

Dear guests,

Thank you for welcoming me here!

In the world of business, "strategy" is often a confusing notion. Companies spend considerable time preparing long strategic plans that detail their strategies. Usually, though, I do find these neither useful nor helpful. However, there is no good reason why strategy cannot be fun. And it can be very effective in guiding the investments of an organization so that it can succeed in the marketplace.

Most managers think of strategy as a plan, as a long document. However, such documents typically do not specify what choices an organization should make. If your strategy does not specify your choices, it is probably a strategy that it is not worth having. Many so-called strategy choices aren't really choices. For example, many strategies contain the 'choice' to be "customer-oriented" or to be "operationally effective." The test is whether if you say the opposite, it is silly on its face. In this case, ignoring one's customers or being operationally ineffective are ridiculous. So these 'choices' are nothing but a decision not to be stupid. That is not a strategy for winning!

In a nutshell, strategy is choosing to do some things and not other things. Any company or other organization that tries to do too many things will not get very far. You have to make some choices and you have to choose what will enable you to win. That is the essence of strategy. If you do not make any of these choices, you may be lucky for a while (if, for instance, you happen to be in a great industry), but your business will not be sustainable over a long period. The worst thing is that somebody else will make these choices and beat you.

In the mutual funds industry there are two giant companies called Fidelity and Vanguard. Vanguard has decided that portfolio managers who pick stocks do not add value to the investor. They will sell only index funds, without using portfolio managers because they believe that portfolio managers cost the investor money. Meanwhile, Fidelity says that it is essential to its strategy to have incredibly clever portfolio managers who put together portfolios of stocks that are absolutely the best for their clients.

This is a great strategy situation. Each company is making choices that the other company considers crazy. Vanguard thinks that Fidelity is wasting investors' money and Fidelity thinks that Vanguard will underperform for investors. Nevertheless, they have both succeeded. That is the interesting thing about strategy. You can focus on doing some things well and let other people do other things well.

Who benefits from strategic choices? Companies certainly do. But customers also benefit from them. They have a range of solutions from which they can choose. What would happen if all companies converged on doing the same thing? Some economists think that this would be a good thing because there would be more competition and prices would fall. But I would argue that this is not the best situation for customers. What is best for customers is variety, so that they can choose what is perfect for them. That means that companies should be different, not similar, in the choices that they make. A key part of strategy is to do something that is unique. Unfortunately, a lot of people in the world of business believe that they can achieve extraordinary results by doing ordinary things. That is not possible.

This begs the fundamental question: "What choices do we have to make?" Any company, any company unit, and any product needs to have a strategy that will enable the company to win. This strategy should help the company produce more value than its competitors. The good news is that there are only five questions that any organization needs to answer in its search for a strategy:

What is our winning aspiration?

Where will we play?

How will we win?

What capabilities must we have?

What management systems are required?

I will give you examples of each of these.

The first question that you must ask is what your winning aspiration is. Why am I using the word "winning"? And why does it matter if you have an aspiration for winning? The reason is that if you do not try to win, and do not try to create more value than anybody else in the field where you are competing, somebody else inevitably will. As a consequence, what you are trying to do will not be sustainable if somebody else is winning.

It is natural for people to say that they are in business to be the best and win, but the aspiration of many organizations is simply to be better than they currently are. That is not a terrible thing. Improving yourself is good. But improving yourself without a very clear goal is not very helpful.

One of the saddest things in the world of modern business are bosses who do not have winning aspirations. This dooms everybody else in their organizations that have to work for an unimpressive organization. I have found that a sense of personal agency is critical. That is a feeling that you have a chance to shape the world around you. There are many others who think that the world is a nasty, difficult, challenging place and all that they can do is get by. If I had to select a leader, personal agency would probably be the main criterion that I would look at first and foremost. Do these people think that the world is there to be shaped? Or do they think that the world is there to shape them?

"If I am going to win, where can I do it?" You have to pick a place in your playing field where you can be distinguished from your competitors. With what customers, with what products, and in what location do you want to play? Where will you focus your resources and investment?

An example that I can give you is Tennis Canada, Canada's national tennis federation. I joined the board of that organization in 2004. I asked why we were playing to play instead of playing to win. By 2004, the last time that we had had a top-50 male tennis player was in the mid-1980s. The last time that we had had a female player of that rank was five years earlier. We were not a tennis nation of any consequence. We sent players to all major international competitions but our best achievement was having a semi-finalist in the Grand Slam 30 years prior to 2004. (Slovenia, despite being so much smaller than Canada, had done much better in tennis.) In 2004, we decided that our aspiration should be to become one of the leading tennis nations in the world despite our lack of a track record there. But could we achieve that by doing the same things as everybody else? We ran two professional tournaments a year and had three million dollars to spend promoting tennis in Canada and developing our young players. The United States has the US Open, which generates about 200 million dollars a year for them to put into tennis development. The French Open generates about 150 million dollars. Consequently, we could not out-invest our competitors. We had to make some choices and we chose to do things differently.

We hired one of the finest tennis coaches on the face of the planet and did something that had never been done before. Rather than saying, “You will help our professionals get better,” we said “We are a small country without many resources. We have to make sure that every player that we try to develop has a chance of making it. You have a better eye than anybody else in the world for what makes a good player and what they need to do at the age of eight or nine to become great.” Nobody had ever done that before. They use their best coaches for their mature players.

There are two ways in which federations develop players, each typified by the two most successful countries in tennis. One is the United States, which has been extremely successful in producing champions. What do they do? They let private clubs develop players. Later on, when good players emerge, they shower them with enormous amounts of money. This is the American free-market style.

At the opposite end are the French. Their federation is probably the most organized on the planet. They control everything about the development of young players, all the way through to becoming professionals.

Interestingly, both approaches have succeeded. We knew that we
[10] couldn’t follow the French path because we had only three million dollars a year whereas they had 150 million. We knew that we didn’t have the resources to follow the American pattern either. We had to do something different. We decided to have a national tennis center like France and unlike the U.S. (until very recently). But unlike France, we would utilize the world’s resources to develop our players, not just Canadian resources within Canada. When our most promising male tennis player Miloš Raonić turned 16, we sent him to Spain and funded his development there. Similarly, we sent Eugenie Bouchard, our most promising female player to Florida to train.

The good news is that 10 years later we have two top-10 players who are also the youngest players on the men’s and women’s top-10 lists, respectively.

That is strategy. That is saying “We will not aspire to play. We will aspire to win. We will make choices to do things differently compared to anybody else”. I would say that strategy can sometimes help you win in situations when, on the surface of things, you should not win. Note that we don’t count as a strategic decision to run our tournaments well. What is the opposite of that? Run them badly. That is not a choice. Our important choice is about how we develop our players. We had to find a unique way to do it that suited Canada, a spread-out country that has only 500 tennis courts which operate 12 months of the year. California and Florida have numerous counties, each of which has more than 500 courts that operate year-round. We were not privileged, yet we managed to make choices that enabled us to be successful by doing things differently. However, nothing would have happened had we not aspired to win.

I want to highlight the second and third choices because I call them the heart of strategy. That is a joint set of choices concerning where to play and how to win.

Every organization has a choice of where to play on the playing field. If you are a bank, do you choose commercial banking or individual consumer banking? Are you going to play in the high end or low end of the market? Or both? Do you concentrate on a particular part of the country or on the whole country?

There are also how-to-win choices that you have to make. Those two things have to work together. In my view, every company that has decided to play everywhere has sealed its own fate. IBM used to be one of the most powerful companies in the world. Where is it now? They are struggling for their future. Why? Because in the 1950s and 1960s, they were playing everywhere in the information technology business. They were making chips, computers, and software. They got into telecommunications. They were doing everything. I would argue that when you try to serve the entire market it makes it very hard to win.

Think about Microsoft. Think about the last time that you, as a consumer, were very excited about a Microsoft Windows release. What is the problem? Are we no longer excited about their products because they do not spend much money on their upgrades? No, they are spending way more money than they ever did. The problem is that Microsoft's target is "everybody". When you make that choice, what is the chance of making everybody happy? You have no chance unless all people are exactly the same. But they are not. Markets are heterogeneous. Trying to be everywhere is a recipe for failure. Happily for Microsoft, that company still has an almost 90 percent market share of personal computer operating systems. But if you ask what percentage of time users spend interacting with a smart screen, you will get a different result – a much more sobering result for Microsoft.

I find that many companies think that their choices are made by some sort of superior power. It is as if God has ordained that they have to do the things that they do. A newspaper must remain a newspaper. It does not have to be so.

My example this time is Intuit, a Californian company that produces Quicken, personal financial management software. It is a very successful product that made its owner a billionaire and helped Intuit become an industry leader. At some point, however, Intuit started receiving complaints from customers that the product didn't have an Accounts Receivable and Accounts Payable package. The Intuit call-center operators who handled the calls would dutifully explain that Quicken was for individuals, not for businesses. For that reason, it was not supposed to have those features. But customers kept calling about the same issue.

What did Intuit do? The company realized that although its software had been designed for personal financial planning, there seemed to be a gap in the market. Nobody was serving small businesses. They were trying to use a product that was not designed for them. What would happen if Intuit created accounting software for small businesses? The result was QuickBooks. This product is now much bigger on Intuit's portfolio than Quicken. It brings in revenues five times higher, and has actually become Intuit's dominant product. This happened because the company changed its playing field and picked a more profitable one.

[12] Now, suppose that Intuit had ignored all those calls, saying that it provides only personal accounting services. What would have happened? Somebody else would have realized that there was a huge market out there and would have entered it. That company would have become much bigger than Intuit.

This demonstrates that there is always a choice. It does not mean that if everybody else plays in a particular field, you should play there too. Quite often, choosing a different field is incredibly important.

Once you have decided where you want to play, you have to think about how you will win. It is important to realize that the goal is to understand how to win, not how to play. A lot of people think that this is the only thing that strategy is about. It is not. It is extremely hard to win unless you have defined very carefully where you are going to play and it is extremely unlikely that you will win if you have not done that.

For example, Starbucks have decided that their playing field is the traditional coffee shop. But how do you win after that? A traditional coffee shop is not an exciting decision concerning where to play. You would not have thought that they would have won like this. But they decided that they would go about competing in a different way. They decided that they would create a unique experience that was not available anywhere else. That is a unique way to win in a generic place. Starbucks made that decision because it was spurred by its aspiration for winning by doing something different than its competitors.

Starbucks is the only company I know that forced its customers to learn an entirely new language system in order to consume their product. They have terms for many different types of coffee. This makes people feel like experts in coffee. They are proud to order their own special kind of coffee. Before Starbucks came along, people in North America were willing to pay a dollar for a cup of good coffee. Now you pay five dollars for a cup of good coffee because the experience makes it feel special and different for customers.

This shows that there is always a way to win. That is the essence of strategy.

Michael Porter argues, and I agree with him, that there are basically two choices that you can make. You can choose to be differentiated from the competition, like Starbucks, or you can adopt a low-cost strategy. The latter strategy involves having lower costs than your competitors while charging a similar price. For example, Vanguard is a cost leader in mutual funds. It has the lowest costs in the entire industry. As a result, whenever it wants to get more market share it can cut its prices, whereas its competitors cannot.

Now, I must note that there is no such thing as a low-price strategy. People often tell me about their low-price strategies but that is a strategy for losing. The only way to win is to have lower costs than your competition. You can use that basis for charging a lower price, but a low price without low cost is a recipe for going out of business. Ryanair is a perfect example of a low-cost strategy. They have expanded dramatically on that basis.

Those are the two ways to win. From the viewpoint of strategy it is absolutely essential to be able to say which of them you will follow. Trying to follow both will never work.

Next, you have to ask yourself what capabilities you need in order to win in the way that you have chosen to win, in the place where you have chosen to play, and achieve your winning aspirations. If you do not have the capability to deliver here, you will not win. Sometimes that means building entirely new capabilities. When Angela Ahrendts took over Burberry, the company had been doing poorly for some time. She altered the company's strategy, saying that they wanted to win with luxury goods that appeal to younger shoppers around the world. What does that mean? Angela Ahrendts thought that the company should have a stronger online presence than any other business that sells luxury goods. That capability had to be built from scratch. Burberry had to hire young people who understand their peers and understand the on-line world. They also decided to publish their annual reports on video, available online, rather than write a thick book. Burberry also realized that it needed the capability to innovate for a young audience. That capability had to be built from the bottom, across all employees, and should not be limited to the designers at the top. In order to win where Ahrendts chose to play, the company had to build a whole new set of capabilities.

For example, they had to build a new capability in design. That is an extremely hierarchical business. Old, renowned designers are kings who rule the roost. Ahrendts realized that Burberry would never make designs that were compelling to a younger demographic unless they changed that system. She appointed a very young person to be the company's lead designer. She also set up an innovation council that would be responsible for each design iteration. The council members would be drawn from all over the world within the organization, and would serve for a year. Then they would follow a rotation principle. In this way design would be democratized and younger designers would be brought in.

This was a revolutionary way of doing design in the world of luxury goods. Through it Burberry was transformed from a declining business into a fast-growing one. That is an example of creating capabilities that are different from those of competitors, and hard to imitate. You can imagine that Burberry is not the only luxury goods company with an online presence these days. Others are racing to create one.

To make sure that these capabilities are maintained on an ongoing basis you need appropriate management systems. What is the first name that comes to your mind if I ask you to name a luxury hotel brand? It is Four Seasons. They want to have the best hotel in every market in which they compete. And they have decided that they will compete only in those markets that can support a five-star hotel. They will play only in hotel management, not in ownership. How will they win? By providing better service than anybody else. And it must be a different kind of service compared to what other hotels offer. If you go to a Four Seasons hotel, you will notice that their service differs from that of most luxury hotels. The style of most luxury hotels involves grand architecture and decor and very obsequious service: “Yes, Sir; yes, Ma'am. Whatever you want”. But that does not make you feel at home. Where do busy business travellers want to be? At home. They do not want to be traveling. And if you are traveling, and you are in some place that has exceedingly grand architecture and decor, coupled with obsequious service, you do not feel at home.

Also, when you are at a luxury hotel, you feel that you are not at your office. Consequently, you miss the level of productivity you feel when at the office.

Four Seasons decided to change this. They decided to offer friendly service that helps you get things done, but they wanted to do it without being obsequious. Their architecture is beautiful but it tends to be less grand than that of other five-star hotels. The rooms tend to be gorgeous but not ornate. That makes you feel at home. Guess which was the first hotel chain in the world to put shampoo bottles, hair dryers, and robes in the bathrooms? It was Four Seasons. Why? What does that suggest to you? That you are at home. Who invented 24-hour room service? Four Seasons. Why is that important? Because if you feel peckish at two o'clock at home, you go to the refrigerator. But if you are in a luxury hotel, they will tell you to call back at six o'clock. That does not make you feel very much at home.

Four Seasons also ensured that there was a big working type desk in the room rather than an ornate piece of furniture that is hard to work at or put your feet under. They were also the first to introduce two-line phones in rooms so that you can run your business as if you were in your office.

At Four Seasons, the service must be impeccably good because the hotel charges a huge price premium compared to its luxury competitors. How do you achieve that? What kind of management system does it take to ensure outstanding service? Four Seasons has a system built around what it calls "the glitch report". If a guest experiences a glitch of any sort at all — it takes too long to get to the room, it was impossible to get a reservation in the hotel restaurant, or the laundry did not come back on time — hotel employees are encouraged, and even rewarded, to record those as a glitch. That applies to all glitches, even if they are the one who have caused it. Then the entire hotel staff, from the top managers to the employees at the lowest levels, meets to discuss the glitch report and design a service recovery plan for each glitch. The hotel will try to do anything that they think will restore their service to the desired level. And guests are almost happy that glitches happen because they know that they will get something wonderful in compensation: theatre tickets, game tickets, a free bottle of Champagne, a free dinner, and so forth.

Every week, the glitch reports go to the Four Seasons headquarters. What do you think happens to the hotel managers who manage to eliminate all glitches? They are in big trouble, and will probably get fired. Why is that? Eliminating glitches is not the goal. The only way to eliminate glitches is to lower the bar until they are not called glitches anymore. This is also true of hospitals. If you can pick your hospital, you should pick the one with the highest number of recorded medical errors. This is true. There is research that demonstrates that those are the best hospitals. Why? You just do not want to be in a hospital that does not record medical error. Interestingly, measured positive outcome correlates positively with recorded incidence of medical error. That is because in those hospitals they are getting ever better. They record their mistakes and try to do something about them. Four Seasons wants glitches to be recorded and fixed so that the standard of their service gets better every time. This service recovery process is so great that when you ask customers if they have experienced any problems at a Four Seasons hotel, they are likely to say that they did not, even if they actually did.

Think about it. Suppose you did not have this system and you just said that you wanted to have great service. Do you think you would be building capabilities on an ongoing basis? Could you bring in 400 guests each night and give them great service? Probably not.

Four Seasons entered the market late, against entrenched competitors, and became number one. That did not happen because they had more resources. It happened because they had a clear strategy to do things differently than their competitors.

Where do you implement your strategy? The answer is that it needs to be implemented throughout the organization, at all levels. For any organization that has more than one business in some sense, there are inevitably multiple levels where strategy needs to be implemented. If a bank has individual banking and commercial banking, it has to deal with the challenge created by its multiple levels. It needs to make a coherent choice at the level of the bank but also a set of choices at the levels of individual banking and commercial banking.

Are strategy and execution the same thing, or not? Yes and no. Executing strategy means cascading it down the organization. Procter and Gamble needs a strategy for the whole organization but all its businesses need individual strategies as well. The choices in baby care are not the same as those in beauty or laundry and cleaning. The challenge for a big modern corporation is to make all the choices fit. The greatest strategy is the one that makes all layers fit together.

People sometimes ask me whether you should start at the top and design a corporate strategy first, and then move downward. Or should you start at the bottom and then work your way to the top? The answer is that you have to do both at the same time. You start doing both simultaneously and keep honing and refining your choices until they fit together. If you start at the top of the company and cannot find anything consistent at the level of the business units below, you will have a problem. If you start from the bottom, you may end up having a mess by the time you reach the top. Procter and Gamble needs all its businesses to be winning in similar ways so that the company can build a set of corporate-level capabilities. If you cannot build a set of capabilities that apply to all your businesses, why should all those businesses be part of the company? That is why Procter and Gamble has been selling a lot of businesses that do not really fit, such as pharmaceuticals. The company is great at selling through retail channels and advertising on TV. That does not fit with getting drugs approved by the Food and Drug Administration and then selling them to hospitals.

The process of creating a winning strategy

Previously we talked about the content of strategy. It now makes sense to discuss how you can get strategies to work. A lot of books on strategy tell you what strategy should look like. But I have not seen many books that explain the process of creating a strategy step by step.

Strategy is about choice. But I find that it is not human nature to love choice. It is human nature to love keeping options open. We cannot escape from our hunter-gatherer past when we probably liked wildebeest meat more than snake but when we saw a snake we would kill it and eat it because we did not know when we would catch the next wildebeest. I think that making a choice is very difficult. I have been thinking a lot about this: How do you get people to make a choice?

The example that I will use is Olay. Olay is a Procter and Gamble product that has been available for quite some time. Olay used to be called Oil of Olay back in 1949. It was sold via mass channels and it generated 750 million US dollars worldwide. That was not bad, but sales were not increasing. The scary thing, however, was that if you measured the average age of Olay users in a given year you would see that it was increasing by about one year annually. This meant that Olay were not gaining new customers, just as their existing customers were getting one foot closer to the grave.

The other issue was that Procter and Gamble wanted to become the world's biggest and best beauty company. At that time they were trailing dramatically. They were doing relatively well in shampoos and had little businesses in fragrances and cosmetics, but the biggest business in the beauty business is skin care, which is a 50-billion US dollar business worldwide. Here Olay was not even close to other companies and was certainly not the best player in the industry. However, Procter and Gamble decided that they should aspire to have one of the best skin care products in the world so as to anchor what would be the best beauty business in the world. They looked at the market and saw that everybody was playing in the wrinkle reduction or wrinkle treatment sector, focusing on women who are 50 years old or older. There were a lot of prestige players, selling their products through department stores. Procter and Gamble did some customer studies and came to the conclusion that there was another segment that was underserved. It consisted of women aged 35-50 who are not necessarily fighting wrinkles but observe that their skin is aging. There are seven signs of this, including spots, tightness, and dryness. These women are beginning to be concerned about these symptoms and would love to have a product to combat them. However, there was nobody aiming at them. Procter and Gamble decided that they would address this market segment.

How would they win? First, they decided that they needed an

excellent product. That meant that they should invest in the development of active ingredients, not only to reduce wrinkles but also to combat the seven signs of aging. They also decided to stay in the channels that they knew well. Procter and Gamble is a huge player in the mass channels. The company is a huge supplier of stores such as Walmart, but have no presence in the prestige channels. They decided to stay in the mass channels but to create a prestige-like experience there by working with trusted retailers to improve shelving, display and packaging for customers who prefer to shop there. Procter and Gamble discovered that prestigious department stores often employ pushy sales personnel who are on commission and try to push their products too aggressively. Many customers resent this: they like great products and nice packaging but they want to be left alone to buy what they want.

Procter and Gamble came up with the term “masstige experience”: a prestige experience in the mass channels. This involved hard work: building new capabilities together with retailers to create this new experience in their stores. They also had to work with the beauty editors of the major magazines and get them to write articles about the new products. That was necessary for the company to win in the field where it had chosen to play.

Finally, Procter and Gamble realized that they also needed a different management system. It would be a system that would allow them to work with retailers and create a masstige experience, as well as work with the influencers in the industry. Without such a system, they would not have the necessary capabilities. For example, we worked with the beauty magazines so that they would write stories about Olay. We also worked with the retailers so that they would create beautiful shelving that makes you feel as if you are in a prestige store.

The first product that Procter and Gamble launched as a result of the new strategy was Olay Total Effect. It was launched at 18.99 US dollars instead of the 3.99 dollars that people were used to. That was a very bold move, yet the product sold like hotcakes. It was followed up with a series of other products that sold at the 50-dollar price point. In this way the company proceeded from the lower end to the middle end of the prestige price point. Now Procter and Gamble is the world's biggest skin care brand. It is a 2.5 billion brand, growing at 10 percent a decade. It is the anchor of what is arguably the world's most important beauty business.

This was a simple example of how you can answer the five questions about strategy. The only hard thing about strategy is that the five questions have to link with one another, fit with one another, and reinforce one another. That is why strategy is not a linear process. If you have an aspiration to win, but you do not have the capability to get there, you have to revisit your aspiration. If you have an idea about how you are going to win, but you do not have the capabilities for it, you have to revisit your idea. These five things must fit together and reinforce one another if you are to have a strategy that will work and guide you. In my view, that is the only thing that makes strategy challenging. It does not lend itself easily to a linear approach. This also explains why it is a bad idea to lock yourself in a room for days and think about a vision and a mission statement. Whatever formulation you come up with, it may be irrelevant if you do not know where you will compete and how you will win, or if you do not have the right management system for what you wish to do. You can start with a winning aspiration but then you have to ask yourself the remaining four questions. If you can answer them all, you will have a great strategy.

The same applies to so-called SWOT analyses. People often perform these analyses outside of any context, before they have answered the five main questions. They think that the answers to SWOT questions will help them to come up with a good strategy. However, there is no such thing as strengths, weaknesses, opportunities, and threats, unless you know where you want to win and how. A strength is an advantage only in the context of a particular where-to-play and how-to-win decision. SWOT analyses tend to take a lot of time and involve many people. They produce thick documents but very little insight. I have asked people when they last did a SWOT analysis that changed the way they did business. They could not remember.

If you do your SWOT analysis before you have answered your questions about strategy, it will be a millimeter deep and a kilometer wide. You will have to cover lots of things because you do not know what matters. But if you have already decided where to play and how to win, you can ask yourself what strengths, weaknesses, opportunities, and threats you have to deal with. Then you can hone your analysis and go a kilometer deep and a millimeter wide on what really matters. I am in favor of doing analyses in strategy, but at a later stage and in a targeted way.

The traditional way that strategy is regarded at many companies starts with a study of lots of things, which often includes a SWOT analysis. Then the designers develop options that seem saleable to whatever manager they have to sell them to. They try to make financial forecasts at a very early stage. Then they try to get people on board. They polish the strategy proposal and try to sell it to senior management. Basically, this process follows an algorithm like this:

1. Study lots of things
2. Develop saleable options
3. Forecast financials for the options
3. Get the consensus of key managers
4. Polish the proposal
5. Sell hard to senior management
6. Tell the organization to execute the plan.

What are the problems with this algorithm? One is that you study lots of things before you know what is important. As a result, the analysis is not terribly compelling. And you spend a whole of time trying to sell whatever solutions you have come up with, negotiating all sorts of potential hurdles. This can take a very long time and is not much fun. I once asked the strategy makers at Procter and Gamble what they thought of the strategy-making process. They said that it was not very enjoyable. They would take their proposal to senior management and be told to redo all sorts of things. Nevertheless, being dutiful people, they said that they accepted all this because it was valuable to senior management.

I then asked the consumers of those strategy proposals what they thought of the strategy process. They said that they did not like it very much. The strategy makers come up with ideas about their own businesses, but the job of senior management is to make sure that all parts of the company knit together. “Each time we send them back without a pat on the back, they get all depressed and demoralized. So, it is really not valuable to us. But those guys do a lot of work and they seem to get a lot of enjoyment out of it.”

There is a story by O’Henry, called The Gift of the Magi, about a poor couple who love each other dearly. The girl has beautiful long hair and the guy has a nice gold watch that has been handed down for generations. Because they love each other so much, they want to give each other the best possible present for Christmas. The guy sells his watch to buy some beautiful hair jewels for his wife. At the same time, his wife has her hair cut and sells it to a wig-maker to buy a lovely gold chain for his watch. The Procter and Gamble people were in a similar situation. They thought the other guys were having a good time, while actually everybody hated what was going on.

Strategy needs to involve dialogue throughout the process. Strategy is about choices; it is not about a plan. People should talk about their choices and how they feel about them. You should not do the analysis at the start and make choosing at the end really hard. Instead, the process should involve framing the choice upfront. Then, generate as many where-to-play and how-to-win possibilities as you can. After that, rather than asking which is better, ask what would have to be true for option A to be a great option. Do the same for options B and C. When you know what has to be true but might not be true, focus all your analytical precision on those questions. Design tests for them and conduct those tests. Then, choosing becomes the easy part because you have laid out the logic behind the choice in a way that everybody agrees with.

Essentially, you can follow this algorithm:

1. Frame your choices: Convert issues into at least two mutually independent options that might resolve the problem.
2. Generate strategic possibilities: Broaden the list to ensure consideration of an inclusive list of possibilities.
3. Specify conditions: For each possibility, specify which conditions must hold true for it to be strategically sound.
4. Identify barriers to choice: Determine which conditions that you feel least confident about are true.
5. Design valid tests for each key barrier: Design a valid test that is sufficient for generating commitment.

6. Conduct tests: Conduct a hypothesis-driven analysis, testing the conditions with the lowest confidence first.
7. Choose: Compare test results to key conditions and make informed choices.

If you base strategy analyses on issues, you will get nowhere. You should say first of all, “We are going to have to make a choice”. Why is that important? Because when you specify two mutually independent options, you see the problem that you have to solve. Frame the choice. Once you have done that, you know what is happening. You understand that you have to give something up to get something else. For instance you can choose between investing money in developing a brand or in buying an existing one. Next, you have to broaden your list to ensure that any possibility that anybody has in mind is included. This is really important. Anybody who has an idea concerning what the answer should be should be allowed to share it. Otherwise, if you squelch people’s ideas right at the start, they will complain the rest of the time or they will try to undermine the process. It is crucial to make sure that everybody’s voice is heard. Anything that anybody has got should be on the table. Often people do not like that because they get too many things to analyze. They want to pare the options early on. Do not do that. The cost can be too high. The person whose idea gets pared will be mad the rest of the time. What you want is an environment in which options kill themselves. They need not be killed by a specific person.

It is hard to get people to agree on whose option is better. But it is much easier to get them to agree on what has to be true for their ideas to work. This is what can keep a conversation alive and productive much longer. The best question in strategy is not what is true but what would have to be true. For example, for the masstige option to be true for Olay, it would have to be true that a significant number of women aged 35-50 years would want to fight the seven signs of aging. It also has to be true that the masstige segment is as attractive as the current segment. It has to be true that the mass retailers will embrace the idea of creating this experience. The idea is that this would take up more shelf space but they would be selling at a much higher price. They have to accept this because Procter and Gamble cannot do this alone. It is a business-to-business company. It does not work with end customers.

You also have to believe that there is a sweet pricing spot between five US dollars and 20 dollars for a little bottle of face moisturizer — the price range between mass retailers and the lowest-price product in the department store channel. You have to believe that you have the capability to develop a prestige-like experience in the mass channel and build the necessary retailer partnerships. You have to believe that you can create the cost structure that enables you to hit the sweet pricing spot wherever it is, if it exists. Finally, you have to believe that existing prestige products – such as Clinique – will not follow you into the mass channels, and mass channel competitors will find it too hard to imitate you.

This is all logic. There are no data here yet. This is laying out the logic in a particular way: this would have to be true for that option to be an awesome idea. You can get people to agree on these things quite readily. People who think that this is a stupid idea and those who think that this is a wonderful idea can agree on what would have to be true for the idea to work.

Then you can ask, “OK. Of all the things that have to be true, which ones are the least likely to be true?” These would be the barriers to choice. They will stop you from doing anything. For example, Procter and Gamble worried most of all about a few specific things, such as whether or not there really was a sweet pricing spot. Or are the existing five-dollar and 20-dollar-plus markets natural markets, whereas everything in between is a desert? That was a big concern. Another concern was whether the mass retailers would want to do this. It would involve some investment on their part and they might say that they liked their business just the way that it was.

At this point, you need data to overcome your fears. Then, you go and design a test for each thing that seems to be a barrier to choice. But notice how specific you are now. You are not saying that you are going to do an analysis of the skin care market. You have to find out something much more specific. Will women aged 35 to 49 pay for a product in a specific range if it has some specific characteristics? Just imagine how much more specific you can be in your analysis.

Who should design your tests? The most skeptical people. This is so because as they design the test, they will overcome their own skepticism. What happens to everybody else? They were less skeptical at the outset and now they are convinced. But what would happen if the most optimistic person designed the test? The skeptics would say that they still did not believe. By the way, that is unfortunately what happens in most corporations. It is the enthusiasts that do the testing.

Strategy involves a lot of imagination. You have to analyze what does not exist, not just what exists. Analyzing what exists is not a bad idea but you can take it only so far. If you focused only on what exists, you would take a brand and you would attempt to optimize it, but you would never get anything like Olay. I think that you should bring to bear some constructive and organized way of imagining things that could be. Nowadays, there is more need for innovation than there has ever been. You just cannot make huge profits by optimizing what exists now. The role of the designer is more important than it has ever been. I would say that it is extremely important for designers to understand strategy and how business works.

For the past 50 years, the world of business has been obsessed with analyses. Analyses are done to prove things. That is all well and good. But you have to understand their shortcomings. American philosopher Charles Sanders Peirce observed that no new idea in the history of the world had ever been proven in advance analytically. What is an analysis? It is the use of inductive or deductive logic to demonstrate that a proposition is true or false. But where do the data come from? The past. If you go to your boss with a new idea, you can expect a request to prove that it will work. It turns out that this is an impossible task. What happens next? You go have a beer and forget about your idea or you scale it back until it gets so close to what you are doing anyway that it is no longer innovative. I see this as a giant problem for the modern world, where analysis has taken over as a way of life. What we should do is apply analysis to domains where it is important. If you are asking a question like "Why have people stopped coming to our hotel but keep going to another one?", you cannot analyze that. You have to innovate. You have to imagine a possibility that does not exist now. Sadly, management practices taught at the world's business schools are encouraging people to believe that being analytical all the time is the answer to everything.

A couple of hundred years ago it was considered very meritorious to be a great composer or artist. Now they ask you why you are not producing more scientific papers per month. I am not against science. But I think that the world must have respect for what is not science. There are things that cannot be analyzed. They require creativity.

Strategy is not about perfection. It is about shortening your odds. I would argue that if you think carefully about the five questions that I have talked about you will have a better chance of achieving success, but there is no guarantee of success. Once you have come up with your strategy, ask yourself what would have to be true for it to be successful. What should happen in the economy? What should your competitors do? Make that list of things which must be true for your strategy to work. In doing so, you can watch for things that do not fit with those that have to be true. You should be alert to them sooner rather than later.

Of course, sometimes the proverbial tsunami comes and hits you without any warning, and wipes you out. But I know from experience that the things that kill companies can usually be seen coming for a long time. The problem is that management does not see them clearly enough. You should expect that your strategy can be disrupted at any time. Therefore, ask yourself what needs to be true for your strategy to work and then watch out and adjust for changes in the environment. For instance, there is a new product out there that competes with yours. Or the economy is in recession. What does that mean? How are our customers going to behave now? What does all this mean for the five questions? Do we need to change anything? You have to be alert forever. Andrew Grove was right: only the paranoid survive. Only those who watch their strategy and the things that can disturb it have a chance of getting ahead.

Management guru Henry Mintzberg once said that the environment is unpredictable and there are many things that can interfere with your strategy. Consequently, strategy is something emergent that you have to adapt all the time. Unfortunately, some business people have taken this to mean that according to Mintzberg, the world is so unpredictable that there is no need for strategy. Yet, he never claimed anything of the sort, and would actually hate that philosophy. You have to have a strategy even if you do not have much data concerning the business environment. You have to base your strategy on logic. Many people conflate logic and data. But they are different things. Logic is the cause-and-effect structure that you believe to be present, whereas data demonstrates whether this structure is present or not. You can posit cause-and-effect relationships even without having much data. Many people think that this is shameful. But if you do posit cause-and-effect relationships in the absence of data, you have the best chance of finding out whether your estimates were right when data become available. The short answer to this dilemma is that you should do your thinking even in the absence of data so that you know what to watch for when you have it. That is how life is. Data will emerge after some time and you will be the first one to use it, not the last.

ROUND TABLE WITH BUSINESS LEADERS ON STRATEGY

Roger Martin

Let me start with a question. What is the thing that you find most frustrating about strategy and strategy development at your organization, and what is it that you find most enjoyable?

Ali Pandir
Chairman & CEO of Erdemir Group, Turkey

I have 33 years of experience in the automotive sector. It was only last year that I moved into the steel business. It was a big change. In the automotive business, I was chief executive officer or country president of large multinational companies: General Motors and then Chrysler and FIAT. I had serious debates with my staff about our strategy. If it is designed in Detroit, do we really need to develop one at home?

I always felt that we needed to have a strategy at every level. A product is developed globally because you cannot justify product development for a single country, except China and the United States. However, it was ultimately up to us to choose products from the multinationals' large portfolios. For example, GM has 80 different models. Which of these should we sell in Turkey? We also had to devise a price strategy and figure out how we would sell those cars. That is why you need a strategy at every level. We could not change the product because it was already there. But we had to position it in terms of price and decide how to play against the competition in the local market.

I joined FIAT Turkey in 2007. There was a market leader with a 15-percent share, whereas we were number two with 10 percent. We shortened that distance and by 2010 it had almost disappeared. We decided that we should continue fighting for the leadership position and win. We had a winning aspiration. However, the result was a discount spiral. The more they cut their prices, the more we slashed ours. We felt that we were beginning to lose money, but we would not give up. That was our strategy.

Our competitor's aspiration was to celebrate market leadership for the 10th year in a row. We felt that they would not give up on that goal, no matter what it would cost them. We decided that we would let them be number one but we would make this win as costly as we could. When they announced another big discount, we decided not to follow suit. It was a hard choice because we could lose everything. Our competitor found itself in an unpleasant situation. It was still the market leader but it was bleeding profusely. To make things worse, they had announced that the discount would last until the end of the year and *could not go back on that promise. Their only option was to restrict the availability of the cars. As soon as that happened, the customers turned to us and we enjoyed a profitable last quarter in our number two position. In the end, our competitor did celebrate its win, but at the cost of a 20-million US-dollar loss.*

Roger Martin

I love hearing strategy stories because they show that there is always a way to win in the way that you want to win. I was a consultant to the senior management team of General Motors in 2006-2008. I would just concur with your view. When I got there, my view was that they had all the disadvantages of being a global company with none of the advantages. You have to have enough global coordination coupled with enough flexibility for the local markets. Yet, General Motors was tying the hands of the local companies without getting economies of scale. This is a classic problem in the modern global world.

Ali Pandir

Yesterday I received some data from a global consulting company. It was its annual strategy survey. The survey finds that 50 percent of all strategies fail completely or do not deliver sufficient results. On the other hand, 62 percent of respondents say that strategy is more difficult than 10 years ago, whereas 74 percent say that they are now spending more time on strategy development than in the past. It also finds that strategic planning occurs in an ivory tower, such as Detroit. It is carried out by individuals who have no clue about what is happening on the ground. Also, 81 percent of those involved in strategy design say the strategy was great, but only 51 percent of those involved in its execution agree with them.

Janko Medja
President of the Management Board, Nova Ljubljanska banka, Slovenia

Of course, the strategy creation process can generate a lot of frustrations. A strategy proposal needs to be approved by some supervisory body and you only get to it once a year. What do you do if you need to make changes in between? As Roger said, strategy is not something that you can carve in stone. But the most frustrating thing, as far as I am concerned, is that people consider strategy a soft topic. You start talking about building strategy competences and people tell you that this is wishy-washy: "Let us roll up our sleeves and do something concrete instead of talking about strategy."

On the other hand, the most positive thing that I can think of is a positive reaction, by a client or a company employee, to a strategy that works. That is a most rewarding experience.

Roger Martin

I agree that it takes time to convince people that strategy is useful. It took 14 years for Procter and Gamble to build the approach to strategy that I talked about. I started working on this in 1986 and it was fully successful only in 2000.

You know that you have a great strategy only when your clients have experienced it: "Wow, this was awesome for me!" Also, if employees cannot say why they are doing what they are doing, it is going to be a big challenge.

Balz Hösly
Chairman, Greater Zurich Area, Switzerland

For me, the most challenging experience was a task that I had to deal with in 2011. My supervisory board consists of seven governors of Swiss provinces and 15 top managers from the executive boards of the most prestigious Swiss companies, such as UBS and Credit Suisse. They have to approve our strategy. The other thing is that we only have six months. After that, the Parliament of the Canton of Zurich, the biggest donor to the Foreign Direct Investment Agency, is in session and it is too late.

At a certain point, private industry realized that our strategy was valid and the 15 top managers told the governors what should be done. This convinced them and the strategy was approved. Four years later, it has proved its validity. It is bringing the results that we expected.

The most frustrating thing was that I was confronted by seven regional parliaments saying that Switzerland did not need a foreign investment strategy. We are so good that money just keeps pouring in. However, we had spotted dark clouds on the horizon. If a top sportsman stops training, he will not be at the top any longer. The same is true of foreign direct investment. The higher the level at which you are competing, the more convincing you must be to achieve your goals. One of the stupid things that companies do when they are in trouble is to cut their marketing programs. That is exactly the wrong thing to do.

We had to convince the politicians that Switzerland's success is not a godsend but needs to be earned. That was not easy. The most convincing argument was my question "How much did you spend on your reelection? And why did you spend any money at all?" If politicians need to spend money to get reelected, why is it hard to understand that we need to spend money to attract foreign investment?

Gazmend Haxhia
President of A.S.G., selected member of the Young Presidents' Organization, Albania

The challenging thing about strategy is that it has to change so fast. By the time that you have put your act together, you have to revise your strategy.

Roger Martin

I have noticed that your competitors do not say, "Oh, you have put together a nice strategy. Now I am going to give you a year to try it out." They will start bothering you right away.

Gazmend Haxhia

This has to do with human nature. At one of my companies, the hardest thing was changing the mental framework. My challenge was to transform a local company into a regional one. I had to lead by example. I told my employees that I used to be poor but that I never had poor dreams. I lifted their spirits in that way and that is how we achieved our success.

On the other hand, the most positive thing about strategy is that it is a very uplifting intellectual exercise. As soon as you start strategizing, you feel that there is hope. There is light at the end of the tunnel. And the next time that you revisit your strategy, you feel that you have built some muscle that you can use in the next round.

Roger Martin

One of the things that people ask about strategy is how often you should address it. I am very much against fixed strategy cycles. You should constantly be watching the things that need to be true for your strategy to work. Are your competitors doing what your strategy expected they would be doing? Are your clients behaving as you expected they would? You should revisit your strategy the minute that one of those things that needs to be true ceases to be true. If your strategy cycle starts in September, but some of these things are obviously not true in March, do not wait until next September.

Mr Haxhia, I want to follow up on what you said. You said that you started in Albania but you wanted to become a regional company. That is a where-to-play choice. What was your motivation for that?

Gazmend Haxhia

I think it was frustration. I noticed that nobody wanted to come to Albania and I decided to become an ambassador for my country. I *wanted to educate people and show them that Albanians have great values.*

I always tell people that it is a good strategy to learn from everybody. I have learned some very wise things from 18-year old students.

Roger Martin

It strikes me that if you have a small budget but a lot of where-to-play opportunities, you have a tricky situation. How do you decide where to spend your money?

Balz Hösly

That was one of the crucial questions for us. You know how it is when you work in a political environment. I would like to add that my background is in private industry. I am a commercial lawyer. Politicians think that you can do anything anywhere without a budget. They like to say that to the media, too. I found that with my budget of four million francs I could do only a little and only in some countries. We had to rein in our aspirations and decide where exactly we wanted to be so as to be very successful. From which parts of the world could we attract companies that would be great for the Zurich area? That was the first paradigm shift that we had to make. We did not want to convince all companies that our area was a great place for investment. We wanted to get companies that we believed would be good for us.

Then we decided that there were two countries that we would like to focus on. One is the United States. That country has a lot of companies that produce international products and do not wish to keep all their assets at home. Europe, of course, is one of the options that they have. The other one was China. In that country, and particularly in the maritime provinces, companies have learned an awful lot from Western partners. They are capable of producing products of such high quality that they are attractive to the Western world.

After we made this choice, we started choosing industries. We tried to focus on the strengths that Switzerland already has. Swiss quality is recognized around the globe and considered a strength of the country. Currently Swiss quality is greatest in precision industries. We decided to focus on those industries in the United States and China.

Roger Martin

Sometimes less is more. If you have a huge budget, you may not be very careful about your where-to-play and how-to-win choices.

Mr Medja, I am interested to hear whether you faced any challenging where-to-play and how-to-win choices during the crisis that you went through.

Janko Medja

After 2000, we diversified into too many things. Our strategy was to be everywhere and do everything. But at some point, we had to decide what was our core business and what was not. These decisions were painful but they were not difficult to make. For example, it is clear that banks will have to be more self-sufficient than they used to be in terms of liquidity. We decided that of some 40 entities of the group, two thirds do not belong to its core business. Many of these entities were small and did not have many employees or large balance sheets.

We also had to abandon some regions or towns in Slovenia where we were clearly incurring losses. That was also an easy decision. The more difficult part was that Nova Ljubljanska banka has always been a state-owned bank and there is a societal expectation that it should provide all sorts of services for everybody. Clients think that they have the right to request these services. And they even expect that some of these services should be free.

Unfortunately, the how-to-win question has typically been neglected by Slovene companies despite its great importance.

Ali Pandir

In the steel industry, I had the luxury of being able to develop the strategy myself because there are no global headquarters. My company is the largest industrial company in Turkey. It was owned by the state for 40 years, and was subsequently privatized in 2006. The main shareholder is a private retirement fund. It could not change the country's corporate culture substantially. Although the company had been privatized, it still behaved a lot like a state-owned company. It was a real cash-cow, with a 50-percent market share and little competition. This business is also hard to penetrate because building a plant may cost 10 billion euros. In consequence, nobody bothered about change.

Of course, since the crisis the market has changed. There is strong Chinese and Russian competition. From my experience in the automotive industry I know something about change. Some time ago, when oil was scarce, people believed that electric cars would soon emerge. Then, all of a sudden, shale oil came along and the scenario changed. Therefore I thought that we should not be complacent about our strong position in the steel industry. I started developing a strategy from scratch.

I surveyed 8,000 employees, asking them how they envisioned the future of our company. I also asked them what they liked and disliked, as well as what practices they would retain and what they would drop. In this way, all of these people were involved in the building of our strategy. When I took over the company my vision was to make it world-class. Then we changed this to what we call Vision 2020. After all our *brainstorming, we realized that if a competitor wished to challenge us with the same technology as ours, or something similar, it would take them at least five years.*

At present, we are changing everything at the company, including our culture, our bureaucracy, and our products. We did not have a research and development department because it was not necessary. We could sell whatever we produced. Now I have established a research and development department even though I have to hire foreign scientists. The reason is that if we try to build our own research and development department we will not get anywhere by 2020, and our competitors might catch up with us. So, this is our strategy now and I hope that it will be well executed.

Roger Martin

Let us now look at some how-to-win thoughts. Mr Medja, can you share with us some of the important changes that you have implemented which are related to the how-to-win question?

Janko Medja

I can share two examples. One is the biggest change that we made in 2013. However, you may not call it a how-to-play strategy. It is probably just about not being stupid. We told our clients that they had to repay their loans on time even if they could have them extended in time or if they could be given new ones. In my view, the problem was that the bank did not distinguish very clearly between good and bad loans.

We decided to consider each client on an individual basis. We had to find out if the client could repay the loan or not, and keep those clients that could. We did not want to lose the battle for clients.

Roger Martin

This is a good illustration of the fact that customers are often less homogenous than strategists like to think. They think of all customers as if they were a single person.

Janko Medja

We also decided that we wanted to have a stronger presence in the small-company sector. We had a 20-22 percent market share in all segments except the small-clients segment, where we had less than 18 percent. What could we do to be more successful in that segment? We decided to speed up our risk-assessment procedure and shorten the length of time before a client gets a reply from us.

We had free space in towns where we had suspended our operations due to low profitability. Bankers always look for new ways to do business *with small clients. Therefore, we rented out some empty premises to some entrepreneurs. We will have bankers mingling with them and giving financial advice rather than pushing products. In that way, our experts will learn about the entrepreneurial segment. Of course, if the entrepreneurs need banking services in the meantime, they can ask for them. This is a new approach because bankers typically think that small loans to small entrepreneurs are not attractive. What do you earn on a 100,000.00 euro loan? If that is your philosophy, you do not pay much attention to those people and you wait for them to come to you and ask for your services. Then you apply some very rigorous procedures which actually involve ticking boxes. Our current approach is innovative and we hope that it will be a winner.*

Roger Martin

It is a good strategy and it passes the test because an alternative strategy is also possible. You could say, "They are too small. Wait until they get bigger." The other strategy is to say, "We want them to be our friends by the time they have gotten big." These are two perfectly legitimate ways to approach the situation.

We have five huge banking companies in Canada. They are all big and incredibly rich and they dominate the banking landscape of the country, but they do not do enough to reach out to small clients. They behave as if big companies spontaneously generate huge profits, without ever having been small.

Now, I would like to hear about your next frontiers in terms of how to win.

Balz Hösly

We are competing internationally with the Greater London region, Singapore, Berlin, Munich, and Vienna for companies that have to make a choice about relocating their headquarters or some of their production plants. We are in a very global business with virtually no funds. What can we do in this situation?

The seven cantons that fund us together with private industries all have people in their administration that care about economic development. I suggested to the governors that we combine forces and work together. This is called resource pooling. All of a sudden, these officials started traveling to Munich, Mumbai, and Shanghai, explaining to local companies why they should come to the Greater Zurich Area. I always say, "If you attract a company to your canton, that is fine because it is in the Greater Zurich area." We now have a new mentality. The different cantons are beginning to think of the Greater Zurich area as like a region. That was a big change in terms of how to win.

There was another change, too. We are a not-for-profit organization. Now, there are a lot of for-profit organizations in Zürich, including consulting companies. I approached some of them and said, "It is now time that you do something for the location where you are doing business. Why don't you work for us for free?" It was an awkward question as it is not normal to ask such a thing. But we had quite a number of very prestigious consulting companies that worked with us as a team and the result was as good as it would have been if we had paid them. In this way, I discovered a new way to deal with private companies if you are a not-for-profit organization.

Roger Martin

This is an excellent example of how you can always do something to shape your world. It may seem unbelievable that business companies will work for you free of charge, but unless you ask them you will never know. And it turns out that it is possible.

Gazmend Haxhia

In my part of the world, you have to pay people to get them to do a service.

Figuring out how to win is a very important part of the strategy design process. At my companies, we have very detailed ongoing discussions. We involve partners in these discussions, asking them what we could improve. The byword of our company is "What can we do better?" We find out by keeping an ear to the ground. We have distilled ways to win. First, we scan the environment for things that are not there and try to do precisely those things. Second, we are very careful readers of reality. If somebody does something wrong, we address it right away. Third, we try to be innovative and creative. That is why I asked Roger during his presentation where one might get a winning aspiration. I think you can do that by being very open and by learning, always trying to do things better. It is very important to be able to learn from your mistakes. In our business, we are very careful not to make the same mistake twice. If we did, it might be the end of our business.

Roger Martin

There is one interesting point that I like to mention. Strategy is not about perfection. If you are trying to do something that nobody has done before it may not work. I actually think that one of the enemies of strategy is perfection. If you want to be perfect, your philosophy will be "Unless we are sure that it is going to work, let us not do it." With this kind of thinking, you will refrain from trying lots of things that you should try. In strategy you can never be absolutely sure. You have to try things to find out. Companies that punish first-time mistakes are signing their *own death sentences. It is important to have a culture of trying that allows mistakes. But it is also important to avoid repeating mistakes.*

Ali Pandir

I have been thinking about the lifespan of strategies. The survey that I mentioned finds that strategies for less than five years have a 53 percent success rate. Those for more than five years have an 85 percent success rate. On the other hand, 88 percent of companies have only short-term strategies and only six percent have long-term strategies. This may reflect the fact that the tenure of the average American chief executive officer is three to five years.

Gazmend Haxhia

In terms of how to win, I think that it is important to think of interconnecting businesses. I am trying to interconnect the whole region, from Moldova to Serbia.

Roger Martin

We can conclude our panel at this point. I would like to thank the panelists for their contributions.

I think that the most important conclusion is that we should not just stumble into things but rather make choices. The panelists have demonstrated that making choices makes a big difference. Instead of sitting back and getting battered by your world, take action and try to shape that world by doing something very positive.

Long before there was strategy, there were brilliant business people doing brilliant things. Strategy is a procedure that just helps you make that happen more consistently and more effectively. I think that it was a great idea to have a panel discussion because it demonstrated how this works in practice. I thank you all very much.

Roger Martin

Roger Martin served for 15 years as Dean of the Rotman School of Management, University of Toronto and is currently the Academic Director of the Martin Prosperity Institute at the same school, with a research focus on democratic capitalism. Previously he spent 13 years as Director of Monitor Company, a global strategy consulting firm based in Cambridge, Massachusetts, where he also co-headed the firm for two years.

Prof. Martin has focused much of his recent work and research on integrative thinking, business design, country competitiveness and most recently corporate responsibility: more broadly, the role of the corporation in our society. He teaches an MBA elective and an open enrolment executive program on integrative thinking, while lecturing around the world on a range of subjects related to his published work and ongoing research.

Prof. Martin is a best-selling author of several business books, the latest entitled Playing to Win, and is a regular columnist for Businessweek, the Washington Post and the Financial Times. He is advisor to the CEOs of some of the world's most successful companies, among them P&G, Verizon, IDEO and Lego.

In the past three rankings, Prof. Martin has risen from 32nd to 6th and finally to 3rd place on the Thinkers50 list of the most influential management thinkers in the world. He has also been named one of the world's top seven "Innovation Gurus".

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2001 Peter J. Rohleder, Peter Kraljič, Milan Kučan, *Competitiveness of Companies in Central and Eastern Europe*

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The publication of the Book of the Year has been supported by:

PHARMAMED

Photos: IEDC-Bled School of Management
AD & D: Eduard Čehovin
Circulation: 5000 copies
Printed by EDNAS PRINT, Slovenia