Deloitte. University Press

Pragmatic strategists: Framing strategic opportunities during transitions

By Ajit Kambil

WHEN we interview CEOs and boards in preparation for Executive Transition Labs, we often hear they expect the newly promoted or incoming executive to be an effective strategist. Yet, in the lab, I frequently find that transitioning executives cannot clearly articulate the process for framing strategy at their company, and sometimes, the critical strategy choices of the company. Building consensus on a strategy process and a new strategy can take time and will be the topic of a future essay. But an incoming or promoted executive can be strategic in framing critical opportunities to make a significant impact on and difference to the growth or performance of the company within its current context of known product-market and other strategic choices. This essay shares some key focusing questions for framing strategic opportunities to create value and move the company forward.

Seven critical questions

I find seven questions helpful for transitioning executives to frame key go-forward opportunities. Addressing these seven questions helps to demonstrate a strategic mindset in focusing actions and deploying resources:

1. **How does the company plan to grow: through M&A, organically, or by driving new or existing products to new or existing markets?** The first and most straightforward question is to know the current strategy: What combination of these growth choices is your company currently committed to? The senior executive's role is then to determine the critical resources and capabilities required to execute the stated strategy, and ensure resources are available and effectively deployed to deliver on the choices. Imagine your company has traditionally primarily manufactured its products in and served domestic markets. It now plans to grow by investing in new plants and selling into emerging markets. In this case, the CFO may want to make sure that capital is available at the right cost for these choices to be profitable, and that the company has processes and controls to

ensure compliance with key regulations such as Foreign Corrupt Practices Act rules. The talent leader may want to develop talent systems, processes, and global assignment programs to create a sustained talent pipeline to support the globalization of the business. Knowing the current strategies helps the executive to focus on delivering the critical capabilities required to successfully execute the strategy.

2. **What are the dominant constraints to your company's profitable growth, and how can you help overcome them?** The answers I received to this question were initially surprising. It was striking how often the dominant constraint to profitable growth has nothing to do with an exogenous factor such as low external demand or the price of critical inputs. Instead most executives point to what should be controllable factors internal to their company. It could be a complacent mindset or a belief such as "We already have the best product in the market," or the lack of an innovative product pipeline, or organization silos leading to ineffective online or data-driven cross-selling and marketing to customers. Of course, some constraints are essentially impossible to overcome. For example, regulations in financial services impose new constraints on banks. Other than finding efficient ways to comply, executives cannot change an external regulatory constraint. By determining the dominant constraint, all senior executives can begin to think through how they might individually or collectively trigger actions to overcome the constraint or work effectively with the constraint.[1]

3. **What is the greatest uncertainty my company faces, and what can I do to resolve or navigate it?** Unlike dominant constraints, usually the greatest uncertainties are externally driven. Uncertainties could come in many flavors. For example, it may be demand or price uncertainties as confronted by many commodity producers. It may be legal uncertainty. Say, the company has potential asbestos liability because the chemical was formerly used in some products, and the uncertainty around that liability is constraining the company's share price and keeping it from making aggressive growth plays. But what if

the CFO and legal counsel collaborate and say, "Let's figure out what it would cost to settle this potential litigation, and see, given our current cash flows and the low-rate environment, whether it's worth that price to get rid of that uncertainty."

Occasionally an internal uncertainty we encounter in our labs centers on CEO or key executive succession. Uncertainties can be costly in different ways. Your investments can be on the wrong side of an uncertain outcome or bet. Uncertainties can "freeze" decision-making. Executives can choose to resolve uncertainties in different ways. In some cases, they can gather information to resolve the uncertainty more quickly. In other cases, they can frame ways to mitigate the down side of an uncertainty through insurance or operational and financial hedging where feasible. Sometimes they can convert the uncertain to the certain by settling an issue (such as legal uncertainty). Another way to manage uncertainty and its downside is to structure projects as a series of real "call" or "put" options. In other words you invest in your projects in a way that lets new information resolving uncertainties guide your future choices.

4. **What is my area of spend where there is a lot of uncertainty about return?** A corollary to the dominant uncertainty is to look in each of your areas of responsibility to identify the area of spend with the most uncertain gains. Usually this presents an opportunity

to identify ways of improving spending in that area, establishing greater discipline for returns and perhaps freeing up resources to be put in areas that will provide greater future gain. Often when I work with CFOs, the discussion centers around marketing, R&D, and systems spending.

5. **What would we need to do to scale up or down substantially more profitably?** Many executives in my labs often frame the financial hope for their company as doubling its revenues in the next five years or its profitability by a greater amount. I often challenge the executives to imagine that future state to be more than double their current size in revenues. Then I ask them if their existing systems, processes, and organization would be able to scale efficiently to support that new level of revenues and meet their profitability goals. I also ask them to imagine it being half the current size of the company, but being equally profitable as today, and how they would get there. This question should trigger consideration of whether the firm can scale or downsize profitably. If the firm sought to grow, for instance, through M&A, will the core systems be able to support the growth without major changes. Likewise, if profitability was to increase by restructuring the portfolio of businesses and divesting less profitable businesses, would the existing systems, processes, and organization model permit the divestiture without significant costs. It is easy to get trapped in the present scale and scope of a company. But thinking substantively beyond existing constraints and limits on alternate scale and scope scenarios can sometimes identify plays that create dramatically new strategic options for the future.

6. **What could disrupt your company and what can you do about it?** This is about envisioning a competitor move such as a merger or a new industry entrant that changes the nature of competition, or a new technology that dramatically changes product offerings. For example as an automotive manufacturer how will merger of two large competitors or new technologies from electric cars to autonomous self-driving vehicles disrupt your company? As a CFO, you might leverage financial planning and analysis capabilities to model out disruptive scenarios like competitor mergers and technology enabled business models to frame potential responses to key scenarios. As an R&D leader at the company, you may track conferences and PhD dissertations to identify promising new disruptive technology creators and work with HR to acquire the most promising talent and teams before your competitors. Scenario planning could help shape plausible responses to disruption or help you disrupt your industry by your own choices.

7. **What should your company or your organization stop doing?** Over time, companies can accumulate underperforming business units that do not generate required returns or customers who are not profitable. In such situations, it may be best to dispose of low-performing units and free up capital and management resources to grow more high-potential businesses. Similarly, choosing not to serve unprofitable customers or to increase prices in their case may improve long-term returns. Functional areas can also accumulate routines and work that are no longer useful. Often, CFOs in the Transition Labs note that finance may be producing certain reports that few internal customers use and information that does not drive valuable decisions. Stopping old routines and work that are no longer relevant can free up resources for important things. Transitions are a good time to take stock and frame a "kill list" at the business and functional level. It can provide a roadmap for freeing up resources for more productive uses and actions to navigate adverse business conditions.

A matter of pragmatism

By asking the above questions and formulating solutions around them, senior executives can be "pragmatic strategists" identifying ways to improve performance within the context of current product market strategic choices. As a new corporate strategy can take time to develop and formalize, these questions help transitioning executives to quickly focus on areas that can be impactful to guide the allocation of scarce management attention and other resources as a broader strategy is framed.

The takeaway

CEOs and boards increasingly seek C-suite executives who can help them shape and execute strategy. Yet, we often find executives in our Transition Labs can clearly articulate neither the prevailing strategy process in their company nor the key go-forward strategic choices. Formulating strategy can take time, but incoming executives can be pragmatic strategists within their existing context to identify impactful opportunities that can improve the business. Focusing on constraints, uncertainties, disruption, scaling, and stopping activities that are no longer impactful can help transitioning executives quickly make choices that can have a meaningful performance impact.

Dr. Ajit Kambil *is the global research director for the CFO program and the creator of Deloitte's Executive Transition Labs.*

ENDNOTES

1. Eliyahu Goldratt's book, *The Goal: A Process of Ongoing Improvement*, (North River Pr: 1992), first introduced me to the theory of constraints which I have found practical and useful in engaging a broad class of problems.

Deloitte.
University Press

Follow @DU_Press

Sign up for Deloitte University Press updates at DUPress.com.

About Deloitte University Press
Deloitte University Press publishes original articles, reports and periodicals that provide insights for businesses, the public sector and NGOs. Our goal is to draw upon research and experience from throughout our professional services organization, and that of coauthors in academia and business, to advance the conversation on a broad spectrum of topics of interest to executives and government leaders.

Deloitte University Press is an imprint of Deloitte Development LLC.

Artwork by Livia Cives.

About Deloitte
Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.