BY PROFESSOR NICK BINEDELL

The Six Cs Of Strategy

2018

Gordon Institute of Business Science
University of Pretoria

GIBS

www.gibs.co.za

Contents

GIBS

PROF. NICK BINEDELL

Professor of strategy and leadership at GIBS and was its founding Dean (2000-2015). He lectures frequently at the Rotterdam School of Management and was recently a visiting Professor at London Business School.

Introduction

A general manager and a team of functional executives have taken a day away from the office to consider their strategy for the next year. The PowerPoint presentations are up and the flip charts are being filled out. This regular ritual can sometimes be a source of frustration. In many companies, the budget is more important than the plan, as it is based on numbers – the ideas are vague, and not strategic or realistically actionable. Nevertheless, the job of thinking hard about the future strategy of the business is the core task of leadership. Generating ideas is easy; making them coherent, practical and, most importantly, useful, is not. A clear strategy without a solid plan of implementation is pointless, as is being able to implement a plan without a coherent, innovative and value-adding strategy.

This article provides a variety of angles or lenses through which to formulate the strategy of a business – that is, that there is a flow and all elements matter.

Seeking and sustaining competitive advantage remains the livelihood of all good general management. The ability to develop a competitive strategy and to ensure its effective execution is imperative to business sustainability.

The six Cs of strategy include: concept, competition, connectedness, continuity, conviction, and the capacity to change. These are elements of the broad process of thinking about how a business develops its strategic depth and capacity.

1

Concept

The essence of good strategy is to build competitive advantage and move an organisation forward by making choices in an uncertain environment. A good strategist will have the insight and skills needed to shape the idea and make it happen.

The leadership needed requires individuals and teams of senior executives to develop good ideas for the future of the business into campaigns or projects through an appropriate organisational structure and culture, with the right cooperation to implement and execute the schemes. As Rumelt (2011) said, a coherent strategy is one that coordinates policy and action, while also creating new strengths through shifts and insights relevant to the future of the business.

Kuhn (1970), a pioneer in the understanding of how science advances, introduced the concept of paradigm shifts. These shifts are the reframing of a concept or a scientific field through the abandonment of traditional data, assumptions or points of view by creating new insight that can be tested and verified, leading to a new concept or paradigm. An example would be Einstein's work on energy conceptually or Porter's work on industry analysis as a form of competitive advantage.

A working definition of the concept of strategy should be able to answer the following question:

"What can this business do that the market wants (insight) or will want (foresight) that its competitors can't do?" [1]

Every business needs a defining or central concept. For Henry Ford, it was mass production and the famous slogan "any color so long as it is black"; for McDonald's, it was the idea of using production technology in a fast-food restaurant setting; for CNN, it was the provision of low-cost news 24-hours a day; and for Uber, it is the ease of urban mobility.

In South Africa, Nando's has stuck to the fast-food chicken business for more than 30 years, building a global brand and reputation in the process. Whereas Discovery disrupted the medical insurance industry with numerous innovations, including the Vitality rewards programme.

Most businesses that survive the initial start-up phase tend to settle on a set of principles, ideas or business concepts that sustain them over a long period. Companies may adapt these, create new ones and abandon some, but commonly, research has shown that they develop a philosophy, ideology, set of policies, and strategic capabilities connected to products and services that are long-lasting. This core business concept normally involves three to six fundamental elements that create a particular synergy and reinforce a concept.

McDonald's provides fast, low-cost, consistent burgers and related meals on a massive scale around the world. It manages its supply chain and procurement process with strategic intensity, focuses heavily on training, and is well known as a major real-estate buyer, with a particular emphasis on the location of the property it acquires or leases. Sometimes, as in the case of Coca-Cola, the concept focuses primarily on a particular product and process technology associated with it. While at other times, in companies such as General Electric (GE) or Bidvest, the emphasis is on a managerial ideology or management system that can be replicated across multiple business units. It is vital for profitability and sustainability that the competitive concept creates value for a defined or chosen market space.

Competitive rivalry and market or consumer loyalty are always at the margin and based on relative advantage. Two companies may offer similar services, and yet one will emerge as the dominant player over time. Normally, this is related to a feature or element of a strategy that gives sufficient differentiation to a business and allows consumers to choose it over another. A leader's capacity to clearly identify what makes the marginal difference in a company is central to the business concept.

The reflection on the development of computer-driven search engines will show that various firms competed for the search engine space. There were many seemingly viable options, out of which Google emerged as the dominant player, much like Ford and General Motors did in the motor industry in the past.

The constant testing of assumptions, upgrading of the strategic central capability, and a clear understanding of what causes that capability to create value and how to further develop it, are critical to strategic value in any business.

[1] Framing question developed by the author

2

Competition

The capacity to compete or excel is at the centre of the human enterprise. To excel can be an objective independent of competition. However, for most organisations, institutions and countries, their capacity to excel is deeply dependent on the nature of their competitive advantage.

In a sense, competition is like a boxing match between two fighters, one of whom will emerge as the winner. This form of direct competition is often unavoidable in business, particularly when products, services and markets are provided by energetic companies competing with similar products and services in the same market.

In some markets – either because they are growing, fragmented or evolving – strategy is not an encounter with a winner. For example, in the 100-metre sprint at an athletics world championship event, the winner will run the best time of the day. However, he or she does not need to prevent the other athletes from running – they compete on the best time. Such a form of competition requires performance excellence on the part of the winner, still in reference to the other competitors, but based purely on the individual player's ability to excel. This is often the case in technology industries, where new products or services are disruptive and create value by being unique.

The urge to compete is based on the instinct for survival. Considering all the complexities of modern life, the world is mainly filled by the capacity of clear institutions to operate competitively in a battle involving direct competition with a distinct winner or loser.

3

Connectedness

Connectedness to a changing environment has always been a key element of strategy. From the basic idea of having a product or service that creates value for clients, to the complex web of interactions, with real-time feedback, significantly faster cycle times, and the ability of a business to build relationships and interdependencies in an agile manner being central to its value.

In an increasingly interdependent world, all large companies face a complex and ever-changing environment. As supply chains stretch, global networks develop and far-reaching brands with partners are built, all the while doing business in a 24/7 economy, the nature of connectedness of a business becomes strategically more important.

Connectedness occurs when a company engages with a set of customers and stakeholders with interests and needs, who have a greater or lesser ability to influence and exercise power over a business. While product or service users are central to the strategy, the complexity of business networks, interdependency of systems from suppliers to end users, increasing dominance of the digital economy, and nature of intangible assets like reputation, all become central to a business's value.

Risk for large, mature businesses is the gradual desensitisation that often occurs as they become increasingly bureaucratic, less responsive and insufficiently adaptive. Memory becomes stronger than vision, with success from one era becoming the mantra for success in another. And yet, for the majority of large organisations, the rate of change often means that nothing can be further from the truth. There are constant reminders that big companies often suffer strategic drift and lose the key ideas and relevance that originally gave them strength and vitality. To avoid this, key insights from field work or experience are vital to the shaping of strategy.

A good indicator of connectedness is to examine the diaries of executives and establish where they spend their time. Although much of the management aspect has become virtual – either through e-mails, social media, or online business or meetings – the necessity to be in the field and experience the use and joy (or not) of products and services remains critical.

A successful strategy can be likened to opening a door with a key, with the test raising the question of whether the key fits the lock. A successful strategy requires a level of "fit", so that the key matches the lock inside the door exactly and is able to open it. That is, the strategy should unlock the market, because the product or service offering's level of precision fits the needs of the market place.

Consumer insight, engagement, exploration and experimentation all become vital features of good strategy and execution. Value can be created by meeting customer needs through innovation in the market, or by increased efficiencies and operational excellence in the business.

An obvious, but often overlooked, truth about strategy is that the most important reality is outside the business, except for the value created or destroyed inside. It is through connectedness that not only an emotional and intuitive link to the market is gained, but also the potential to have the critical insight needed on how the market is changing.

Another area of connectedness that is also vital is related to insight, best practices and relationships outside the confines of a market or industry, ensuring the ability to leverage insight from other industries and sectors. This ensures the best practice has been built in both the products and services offered, as well as the nature of the organisation. "Learn from everyone and copy no one," is a powerful way to develop strategy through the best practices of others, ensuring your organisation is innovative.

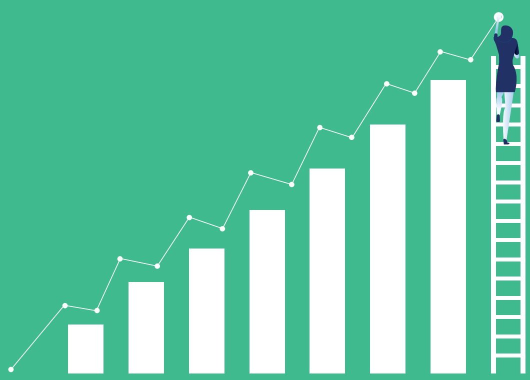
For companies, such as Samsung, BMW or Tesco, the ability to manage and motivate an organisation of tens of thousands, if not hundreds of thousands, of employees to deliver a consistent quality service is a great asset. While adapting the product and services to different markets becomes a key leadership task, connectedness is also related to the internal dynamics of the business. It ensures that leadership is powerfully connected through the levels of management to the frontline, and that there is a flow of critical information and insight from the top to the bottom, and vice versa.

Many strategists would argue that a core element of strategy is building the ecosystem (that is, the value chain) that extends to suppliers all the way through to users, and perhaps even the customers of buyers. Given the speed of change and the rate of innovation, this broad ecosystem needs to be continuously managed to ensure alignment and value.

An increasing number of questions are being asked about the generation and sharing of value. In South Africa, the question of an inclusive economy is becoming part of the debate on the role of business, equity and transformation. Porter and Kramer (2011) provide useful ideas and concepts through the development of a shared value approach. Transformation and inclusiveness are likely to become central to market, community and organisational connectedness.

4

Continuity



Equity markets push for short-term results. The pressure from investment analysts, banks and portfolio managers of large institutions are frequently said to promote short-term gains at the expense of long-term sustainability.

Most entrepreneurs report that in the early days of their businesses' start-up period, a key part of survival was the focus on the short-term. Most good business ideas flounder not due to the product or service not being sound, but rather because in the short-term, they are unable to fund the expansion of the business with appropriate cash flow and find themselves in an uneconomic situation.

The South African companies that dominate our economic landscape, the budget or planning process, require projects for approval on the condition that they meet an investment hurdle that exceeds the current cost of capital. This moves business leaders to focus on ensuring sustainability. Once a business has reached a noteworthy scale or has a significant market share, the agenda shifts. Big companies become defensive in their strategy and incremental in their investments, seeking to protect their rates of return and stabilise yields, profits and dividends. Teams need to find the balance between efficiency and long-term sustainability. Successful CEOs are able to find the balance to ensure that companies are making investments that guarantee long-term sustainability and viability.

The first area of this consideration pertains to investments in research and development, absorption of new technology, and development of fresh products and services in new markets. This should be a core essential issue for business leaders. Companies need to look beyond the short-term horizon and into the three- to five-year timeline to ensure they are making investments that are sustainable in the medium to longer term.

Industries have different investment horizons, capital intensities and clock speeds. Some industries think of the longer term more than others. For example, mining has a 20- to 30-year capital investment horizon, while a year is a long time compared to the advertising industry. However, the same principle applies in both cases.

Given the many issues concerning sustainability – climate change, biodiversity and scientific interventions in natural processes, such as genetic modification, which is the use of chemicals in the natural food cycle – society is beginning to question the balance between short-term profit and long-term sustainability. Therefore, businesses need leaders with the skills of philosophers and diplomats, rather than just battlefield commanders.

It is interesting to note that many of the world's leading business entrepreneurs in the 21st century have turned to these questions in more substantive ways. From Henry Ford, Bill Gates and Warren Buffett, to the Tata family in India and pioneering businesses in South Africa, successful entrepreneurs have sought to sustain enterprises by contributing to the macro-system through charitable and social involvements. This investment and continuity has an enlightened self-interest element, which for a big business means that, unless the market grows, the company does not have a future. It also means that the market requires a viable and sustainable political economy.

Sustained continuity is a philosophical question that relates to the purpose of the business. The complicated dynamics of the frontline of technology innovation can be contrasted with the long-term sustainability and the role that business plays as a healing agent, generator of taxes, and member of the political economy that behaves in a legal and ethical way that is fairly regulated and legally compliant. It is for this reason that governance and strategic leadership need an agenda beyond the budget and returns to shareholders.

Capitalism has evolved over the centuries, and the stakeholder model ensures that all who have an interest in the sustainability of the firm receive a fair benefit from its activities and behaviour.

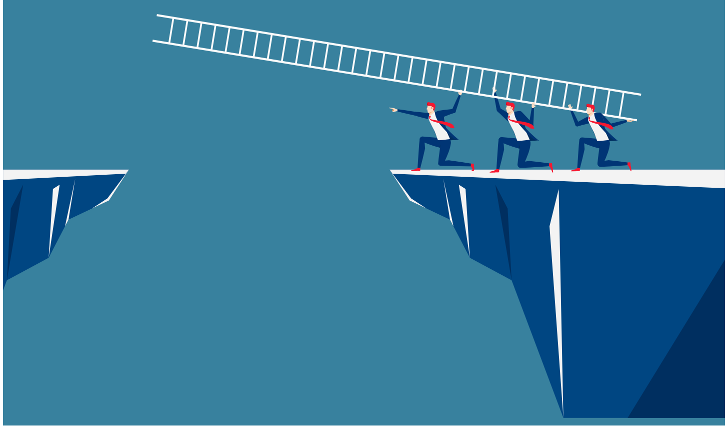
5

Conviction

Those engaged in strategic leadership have a lonely position. Teams or individuals who lead an organisation frequently find themselves isolated. Personal relationships at work are often constrained and artificial, especially when tough calls need to be made. Institutions and individuals are hesitant to change if the status quo provides comfort and results. However, the very role of strategic leadership is to ensure the long-term sustainability of an organisation in a fast-changing, competitive environment. This requires a level of conviction, courage and the willingness to impose a new set of ideas and investments on reality.

This courage of conviction is often at the heart of good personal or team leadership since strategy involves uncertainty. Outcomes cannot be predicted, but commitment, resources and time are required in the difficult practice of moving the organisation into a new domain, adopting a new technology or developing a new market. In an often complex, competitive and fast-changing world, it is the leaders who are willing to place a bet, adapt as conditions change, and persevere with determination over a long period of time without reckless gambling, and who lie at the centre of good judgement, insight and foresight. Successful entrepreneurs are said to be passionate, and to sometimes have an obsessive level of focus, determination and courage.

Courage normally develops from experienced hardship and implies an implicit possibility of loss, failure and defeat. This quality is both a personal and organisational culture that may be a choice, but it is often brought about involuntarily by difficult circumstances. Courage and determination are key skills to see a team through hard times and the difficult choices that need to be made. Any choice faces resistance, and crucial choices are often made in the midst of significant uncertainty or major opposition. Courage is the capacity to overcome both of these in a creative and positive way.



6

Capacity To Change

Nonaka (unpublished manuscript, 1985), a well-known Japanese scholar, argued that the Japanese economy was unable to achieve its grand objective in the 1990s, which was to continue to grow, innovate and become the world's leading economy. The cause, he believed was because Japan excessively relied on the methods of the 1960s and 1970s for the challenges faced in the 1980s – a decade in which technology changed the global economy. Nonaka (1985) argued that all institutions suffer from the dangers of success breeding failure, and memory becoming stronger than vision.

In the past, Nonaka (1985) advised top Japanese companies what, in his view, would prevent them from becoming dominant global players in their various industries. To answer this, he looked into why the Japanese lost most land battles after the first flurry of victories in the Pacific Ocean theatre of World War II. He concluded that the Japanese military relied too much on outdated methodologies and strategic thinking. This which they had gained from their military experience in China in the 1930s, and from their earlier naval victory against Russia in 1904-1905 – the first time a Western navy was beaten by a non-Western sea power. Nonaka (1985) argued that the success of both these encounters led to a stagnant thinking in the Japanese military, causing the country to be unable to adapt to the modern technology available in the 1940s when it went to war with the United States.

This perspective is relevant to company CEOs today. Nonaka (1985) argued that a CEO's job is to "destroy" the thinking in their business, because without doing this, leaders in the organisation are likely to cling to previous, outdated methodologies.

The human mind prefers the stability of the present to the uncertainty of the future. From a neurolinguistic view, the brain is more geared to protection than it is to opportunity (Macoveanu, Ramsøy, Skov, Siebner, & Fosgaard, 2016). There are few individuals or organisations willing to gamble what they have or what they have achieved by risking a major new venture or initiative. Change comes as an opposition to control and stability, and there is resistance in most societies unless it is absolutely necessary.

Proactive strategy means that an organisation or individual will step into the unknown for a superior insight, idea or technology. They do this to develop a new format, ecosystem, product or service that they believe will have a major impact, be supported by the market, and give them competitive advantage.

Braudel (1994) argued that strategic culture is the most important factor establishing national success. He placed it higher than geography, demography or history as a determinant of what a nation might be capable of doing to advance its interests. The same is true of companies and industries. Most companies develop a mode of operation and thinking that executives reinforce – sometimes unconsciously – when in fact they are being confronted by very high rates of change.

As Napoleon showed in his European campaign, his method of organisation and deployment of military resources was superior to that of his rivals. He moved away from besieging walled cities into a form of highly organised mobile warfare where his command and control structure were radically altered to increase the speed with which the army could move. This speed of manoeuvrability and the decision-making skills of his delegated field commanders gave him a massive advantage. In those European battles, the time it took for information to go from the front line to the central command, and for a response to be given to the alteration of strategy or tactics, was much slower than the speed of the actual battle.

Commenting on the speed of the Zulu victory at the Battle of Isandlwana, military historian David Rattray said that the battle happened faster than he could meaningfully tell the story (as cited in Knight, 1998). This is the challenge of change that most organisations face today.

Most industries still have organisational forms and structures that are more suited to the industrial era than the knowledge economy, and to the manufacturing of tangible goods than to the service economy and intangibles. In other words, organisational structures, systems and processes have fallen behind the rate of change. Therefore, the capacity to change thinking and the form of organisation becomes key to good strategy. For example, Google's European offices are designed for maximum interaction. The employees are lively, global, young and energetic, communicative, fast, and intense – all of which fits a high-speed, inventive and successful modern business.

While all large organisations need to follow principles of coordination, alignment and planning, the culture of the organisation determines its pace. A successful organisation today embeds key mechanisms for fast decision-making cycles, high-levels of innovations, and to ensure that its individuals have sufficient discretion to innovate, changing their domain of operations to ensure there is an adaptability and agility to the organisation's long-term strategy.

It is overcoming the personal and organisation fear of, and resistance to, change that is key to strategy. More importantly, the ability to handle that change and manage it well remains vital.

Conclusion

Together, the six Cs of strategy – concept, competition, connectedness, continuity, conviction, and the capacity to change – provide a basis for executives to review and assess the strategic capacity of the business. From a strategic and competitive perspective, these can be used to evaluate a business's strengths and weaknesses.

Although the factors overlap, each asks a fundamental question in a different dimension of the overall strategy, and together should provide a straightforward framework for analysis. Working through each question with evidence or argument, data or judgement, should give sufficient impetus and structure to evaluate an organisation's strategy.

Gordon Institute
of Business Science
University of Pretoria

26 Melville Road, Illovo, Johannesburg
P O Box 787602, Sandton, South Africa, 2146
011 771 4000 | Acumen@gibs.co.za