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An arc of certainty

Executing Strategy: what can private equity firms teach us?

By Fiona Czerniawska

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Foreword

Developing a strategy is one of the most important collective activities an organisation undertakes. Yet many strategies are not successfully implemented in their totality. Execution – getting people in an organisation to turn their plans into reality – is a concern for every executive.

Preparing a business strategy is fundamentally about ensuring the future success of an enterprise. Recent events have highlighted the success enjoyed by private equity owned businesses. Might the secret of developing successful strategy be to follow the models of the private equity houses? Should owners be more actively involved in the strategic direction of an enterprise? Are we too tolerant of under-performing managers? Do we have too many conflicting objectives which distract us from creating value? Do we move too slowly?

This report suggests that these are issues we need to consider, but it also argues that private equity firms don't have all the answers. Ownership isn't just about having a financial stake in a business, but about individuals taking responsibility for getting things done. Strategy shouldn't be a high-level vision statement or a detailed blueprint, but a statement of the values an organisation holds dear and which are the standard against which every decision is judged. It should, in the words of one of the people interviewed here, be an "arc of certainty."

That's certainly something we at Arup relate to. We're owned by a trust for the benefit of our current, past and future employees, and that affects the way we work and every decision we take. Creating a successful, but also sustainable, business – one that we can hand on to the next generation – is the kernel of the firm's being. As we evolve as an organisation, those values fundamentally influence our business strategy and, in so doing, they provide our own arc of certainty.

I'm therefore delighted to be able to introduce and sponsor this new MCA report, and hope that the insights it offers will be of value to your organisation.

John Miles,
Chairman Global Consulting, Arup

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The information in this report was based on a survey of almost 300 members of the Strategic Planning Society, carried out in March 2007, and on around 30 interviews with senior executives and strategy experts, many of whom have also worked alongside private equity firms.

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Executive summary

Organisations are investing more in developing and implementing strategic plans, but more than a third of them don't add value, according to people who are involved in developing them.

The aim of this report is to examine why this is the case and how organisations can close the gap. In trying to understand this, we have highlighted five advantages that private equity firms have when they put money into a company which could also be applied in other organisations: having an owner who is also involved in strategy development; weeding out poor-performing executives; being focused on cash generation and value creation; objectivity; and speed of execution.

Acting on these principles would, we believe, help narrow the gap between effort put into strategy and its impact, but they would not close it completely. This is because private equity firms focus their efforts almost entirely on the topmost echelons of the companies they work with and the respondents to our survey make it clear that the single, most significant problem is ensuring engagement and a sense of ownership across their entire organisations. Solving this issue requires rethinking what strategy is, treating it more as a model for behaviour than a vision statement or detailed blueprint.

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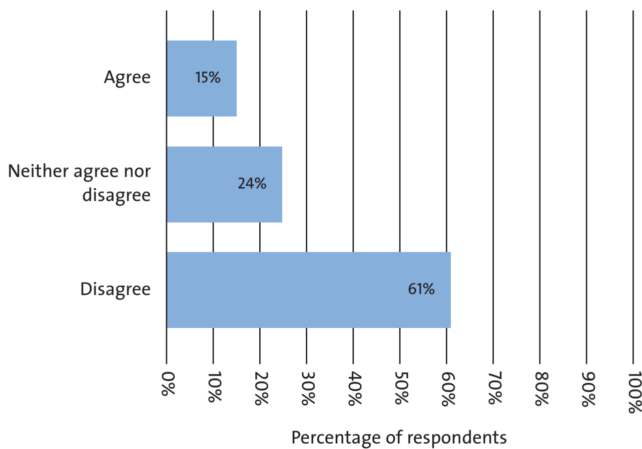
INTRODUCTION

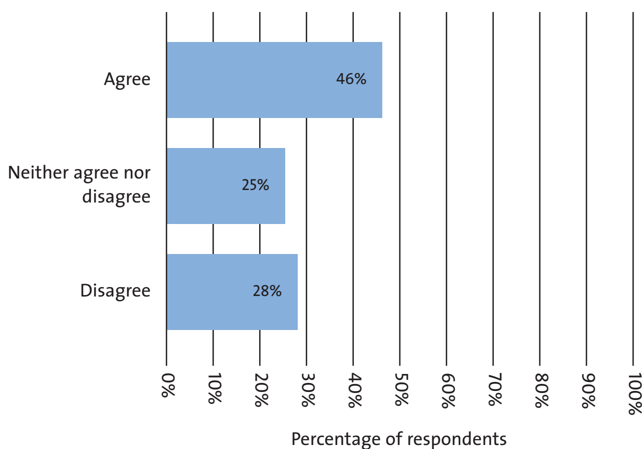
We're spending more time and money on strategy than ever before. Almost two thirds of the respondents to the MCA survey disagreed with the statement "We spend less time developing strategy than we did five years ago" (Figure 1). A similar proportion say they gather more information than they used to do and their organisation's strategy makes a lot of difference to the way they work. Almost 90 percent of respondents said they had either an excellent understanding of their organisation's strategy or a reasonable one. Almost half of the organisations surveyed had dedicated strategy teams (Figure 2).

Figure 1: We spend less time developing strategy than we did five years ago



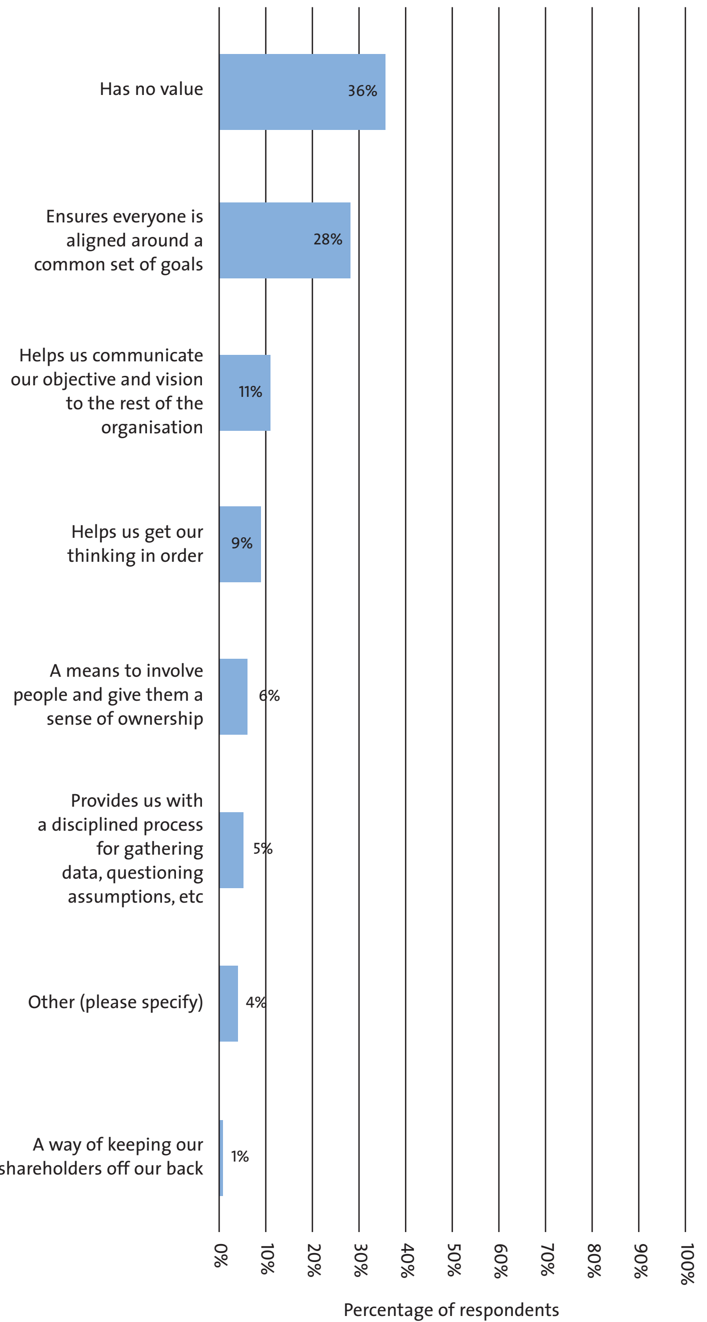
Respondents who answered 'Don't know' have been excluded from this and other charts in this report.

Figure 2: We have a dedicated strategy development team or function



So why is it that a third of the people we surveyed think that the resulting strategy is a waste of time (Figure 3)?

Figure 3: What do you think is the main value to your organisation of having a strategy?



We might find some of the answers by looking at the example of private equity firms. There's been considerable discussion in the media recently about their role and value. This has been sharpened by the increasing size of deals such firms are prepared to enter into – the £11 billion bid for Boots Alliance being the latest in a long series. Private equity firms have become the new wolves of business, attacking vulnerable companies and stripping the value from their bones.

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Countering this negative perception is the fulsome praise of many of those whose businesses have been acquired by private equity buyers and the way in which private equity firms have been reinventing themselves. "Private equity firms have come back strongly onto the M&A radar in the last few years," says Charlie Simpson at PA Consulting Group. "They emerged from a relative niche position in the early 1990s and originally tended to focus on particular sectors. As the volume of deals they were involved in grew, they relied less on their sector-based expertise and more on financial engineering – their ability to make step-changes in financial performance and exit at a premium. The challenge for PE today is that there is a significant excess of capital, relative to the available deals to invest it in, and that has shifted the dynamics of the industry. PE firms are coming under increasing pressure to differentiate themselves from their immediate and corporate competitors. They have to demonstrate how they would add value as corporate parents and what will make them superior owners. Because there are plenty of potential investors to choose from, managers of the target companies can legitimately ask what value those PE investors will add."

There are also the impressive results some – though by no means all –deals have yielded.

"Everyone has been astonished by what they've been able to achieve," says Roland Fitoussi at Solving International. "It's not just been a question of having better strategies: private equity firms have injected a sense of speed and agility."

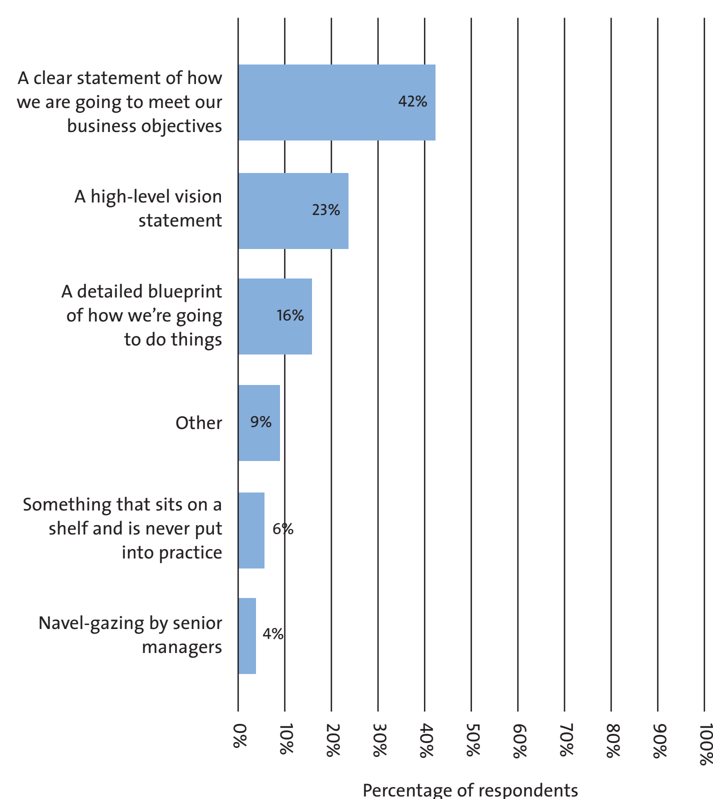
The objective of this report is to look at what private equity firms do and do differently from existing managers when they take over a company, and to ask whether there are any lessons here that could be applied to other organisations, irrespective of their ownership model. Could the approach private equity firms take to developing and implementing strategy provide some answers to the question of why so many people, even those actively involved in developing a strategy, consider it a waste of time?

In trying to answer these questions, this report will look first at the advantages of private equity firms. But it also, in Part 2, argues that the strength of private equity firms – their relentless focus on getting the best out of a company's top management team – may also be a weakness, and that closing the gap between the effort put into strategy and its resulting value depends on using strategy as a tool to engage the organisation as a whole.

But first... what do people understand by "strategy"?

There are probably no two organisations in the world that could agree on exactly the same definition of strategy. Among the people we surveyed, 42 percent said they saw it as "a clear statement of how we're going to meet our business objectives", 23 percent as a "a high level vision statement" and 16 percent as "a detailed blueprint of how we are going to do things" (Figure 4). It might therefore be reasonable to conclude that the common perception of "strategy" is probably as a combination of these things, part high-level statement, part detailed blue-print, in essence the bridge between an organisation's aspirations and its practical, day-to-day operations.

Figure 4: What do you think "strategy" means to your organisation?



PART 1: THE PRIVATE EQUITY ADVANTAGE

Based on our interviews with people who have worked side by side with private equity firms, there appear to be five distinct advantages to the latter's way of working:

- Having a single, identifiable and active owner
- Being ruthless when it comes to the quality and capability of managers
- Having a single-minded focus on cash and value creation
- Objectivity – the fact that private equity firms are not caught up in internal politics
- The speed with which they move

This section of the report examines each of these factors in detail, analysing:

- whether these factors are exclusive to businesses run by private equity firms or are applicable to other types of organisation
- the extent to which the absence of these factors may help to explain the apparent gap between the effort organisations put into developing strategy and the value they get from it.

The active participation of owners

Not surprisingly, the most commonly-cited difference in the way private equity firms manage the businesses they own is to do with governance. Unlike traditional shareholders, private equity firms are usually actively involved.

This is certainly what struck Catalise's Roy Barden when he talked to a private equity firm which had invested in a major restaurant chain: "They'd clearly done some very thorough analysis of the business," he recalls. "The chain had worked well when it was relatively small, but quality had fallen as the scale of operations had increased. The new owners realised that success was largely dependent on the quality of the chef, but what impressed me most was the level of detailed understanding they had of the business, even down to the menus."

And that chimes with Richard Feigen's experience as the managing director of Seymour Pierce, a leading London investment banker and stockbroker, which was bought by Alchemy in 2003, one of whose partners now sits on the board. "The greatest difference between publicly-owned businesses and those owned by private equity firms is the financial structure," he says. "A private equity firm sees no point sitting on a pile of cash and is much more focused on making the existing business more efficient than in developing grandiose plans for the future. From our point of view, Alchemy have been great owners, giving us plenty of good, constructive and pragmatic advice, and making introductions for us to help grow our business. Ten years ago firms might have been considered the unacceptable face of capitalism, but increased competition in the private equity market has driven those that can't add value out of business."

Feigen's experience and attitude are typical, says Vincent Neate at KPMG: "Private shareholders tend to be far more involved than ordinary shareholders. They have a majority stake and will have a seat on the board." But he also believes that the advantage lies as much in changing managers' views of shareholders. "When you're bought by a private equity firm, you have just one owner, so you can't treat shareholders as though they're an amorphous mass of people you have to keep happy in general terms. You deal with the same one person on a regular basis." There are other advantages. As Chris Bowers at the Hay Group points out, a company's existing management team will be fully occupied by their day jobs, making it hard for them to find time to stand back. "It's difficult to change the organisational tyre when travelling at speed," he says. "The best you can hope for is to deliver today and prepare for the future. Private equity firms have the advantage of being able to step back and work on the organisation while the management is running the organisation."

"One of the best ways to describe the role of a private equity firm is 'interested doers'," confirms John Higton at The Berkeley Partnership. "They sit alongside the management team, advising it, but they have the capacity to act absolutely ruthlessly if the situation demands it. Compared to conventional, disinterested shareholders, private equity firms have a lot resting on the results: they focus on doing a few things well – and that combination of single-minded change and the ability to see it through is an unusual quality in an organisation."

But proactive investors don't always make for plain sailing: there will be disagreements here just as much as there might be between a publicly-owned organisation and its institutional shareholders. "It's a bit like a transatlantic flight," says Steve White, whose company Durrants, the UK's leading media monitoring and evaluating agency, was acquired in 2000 with the backing of August Equity. "The six hours when you're at cruising altitude will generally be pretty smooth. The difficult times are during take-off and landing." It's also important that both the incumbent management team and the private equity firm agree on where their responsibilities lie: if the advantage of a private equity firm is that it can change the organisational tyre while managers drive the car, then it doesn't make sense to involve the former in much of the driving. "One of the keys to a private equity firm's success is the framework it creates for its intervention," argues Steve Smith at Quest Worldwide. "Private equity firms have to pay more for the businesses they acquire and generally have to work harder to get their money back, but that doesn't mean they should be telling the management team how to do their job. Their responsibility is to provide options and guidance." "When a private equity firm has input into a company's strategy, it retains a degree of distance," says Roy Barden at Catalise. "It's not part of the problem and it doesn't want to be part of the solution. It acts a bit like an empowered consultant, but it doesn't just advise: it can make people jump."

Combining the clout of ownership with a strategic, advisory function means that the role private equity has is similar to that of the central functions within a large corporation. Indeed, as Mark Goodridge at ER Consultants says, there are signs that some private equity firms see the parallel too: "Some of the bigger firms are

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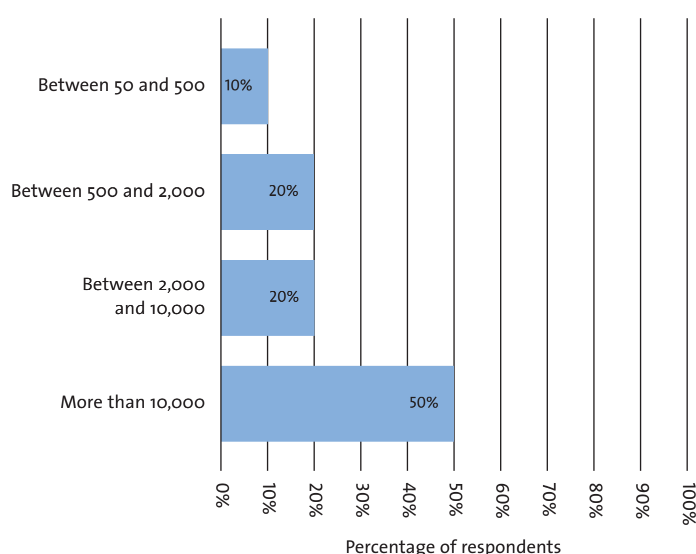
starting to set up corporate centres, recruiting specialists in areas such as procurement who can go out and advise their 'subsidiaries'. They're also looking to add value by facilitating links between the different companies in their portfolio. In some ways it's a response to critics who argue that private equity firms only focus on financial changes, but it raises further questions about the extent to which their role is becoming blurred: financial strategy is clear-cut, but business strategy is much less so. At what point does the difference between a private equity firm and the conventional corporate world disappear?"

Not surprisingly, the MCA survey shows that the level to which owners/shareholders are actively involved in an organisation depends on its size. In just over half of the small firms surveyed (those with fewer than 50 employees), the owners were entirely responsible for strategy (Figure 5). However, in half of organisations with more than 10,000 employees, the owners/shareholders had absolutely no say in the strategy.

Figure 5: Our owners/shareholders are not involved



So is it possible for the advantages of private equity ownership (a single, consistent and identifiable "owner" able to take an active role in the debate about strategy) to be replicated in other, non private equity-owned organisations, without those advantages being eroded (if the private equity firm becomes too involved in the minutiae of day-to-day management)?

Amanda Derrick's experience suggests it can. Until recently, she was in charge of the e-Admissions National Project; a project aimed at getting local education authorities (LEAs) to put the process by which parents apply for places for all LEA managed school admissions online. Anyone who is a parent will be familiar with the stressful, time-consuming and seemingly hit-and-miss paper-based process: different forms going to different schools at different times; delays in acknowledgment; paper-work going astray; results slow in coming. Putting this online was an immensely attractive idea, but the barriers to achieving it were immense. "LEAs have different demographics, different politics and different priorities so engaging them all was difficult," Derrick points out. "When we started out, much of our remit was quite vague, along the lines of 'it would be nice if…'. We were aiming to establish a route map to help LEAs put their admissions service online, promote best practice, liaise with suppliers, agree user standards, etc. Those are all very worthy objectives, but none of them would guarantee you'd get the end result: we could have completed our project and less than half of the LEAs might have been online, as had been the case in comparable projects."

Responsibility for defining and implementing the strategy lay with individual authorities and some of them initially took a tick-box approach to this, effectively saying this was yet another central initiative being foisted upon them and they'd do the bare minimum in order to comply.

A year and a half into the project, Derrick's team revisited their objectives, seeing little point in "owning" a project if they couldn't also make it happen. "We decided our job was to get 150 LEAs online and make sure that the service was being used by parents: that's what we had to do; that's how we'd judge our success." Derrick set out to recruit a team: as well as carrying out studies of best practice, they actively sent out practical information to LEAs and seconded some LEA admissions experts to work as part of the e-Admissions team and then directly with other LEAs. They organised surveys of parents, discussed issues and listened to problems. They put LEAs in touch with each other so they could learn how others had already done things. "We built up individual relationships with many authorities," says Derrick. "We had a list of authorities we viewed as being 'at risk' of not making the deadline and a small hit squad, with which we could work directly with LEAs, where necessary. LEAs did not always have the time to talk to each other, but having individuals who had successfully implemented in another LEA gave them greater credibility."

Derrick and her team didn't just help the LEAs define their approach: they were there at the deadline (31 August 2006) to check that all 150 LEAs' processes were up and running. "We went onto their websites," she recalls, "and if we couldn't find the online admissions process we'd contact them. Looking back, some of them were very reluctant to be involved but it helped that we'd such solid knowledge of what worked through our work with early adopters." The majority of LEAs, though, were hugely appreciative. "The feedback has been very positive: we've had thank you emails from people saying it was the most exciting project they'd ever been involved in." 100 percent of the LEAs met the deadline and in the first year, 18 percent of parents used the online service nationally.

As Derrick's experience demonstrates, it's the combination of external advice with the power to get things done that seems to make the difference. "Owners and managers have to work together," concludes Roy Barden at Catalise.

Ruthless focus on management performance

Part of the private equity industry's reputation for ruthlessness comes from its willingness to make swift and sometimes far-reaching changes to a company's management. The quality of the management team is typically one of the first things they look at when evaluating a potential acquisition. "Private equity firms have a very strong focus on whether the management team has the right DNA and will act very quickly to strip out poor performers," says Caroline Firstbrook at Accenture. "They want to know if the organisation has the right people at the top," agrees Charlie Goddard at Troika. "Are they committed to the business? Do they have the right leadership qualities? The management team may have fantastic operational knowledge, but that won't necessarily mean they're great leaders of people."

Of course, this issue is not confined to private equity-funded organisations. "Although it's dangerous to generalise," says Firstbrook, "many corporations feel strongly that consensus is important and that everyone on a management team has to be on board with the strategy. While that's right in principle, it often results in recommendations being watered down. It becomes strategy by committee and that's usually less compelling than a strategy developed by one person with a strong sense of leadership." "Success in all areas of business hinges on the capacity of the management team and the chief executive in particular," says Roland Fitoussi at Solving International. "Every organisation has to be able to push through radical changes, and its ability to do that is largely dependent on whether its chief executive is able to inspire the confidence of their immediate team." What private equity firms do differently, he believes, is ensure the chief executive is supported by a smaller, more focused team than would be typical in the corporate world. "Systematic evaluation of the members of a management team, even down to carrying out psychometric tests, are an important part of the due diligence private equity firms undertake prior to making a purchase," says Jonathan Jones, a partner at the law firm Hammonds who has worked extensively with private equity firms. "Not a stone is left unturned, and that can come as a bit of a shock to those involved."

But for the executives that past muster, the message is a very positive one: they have passed a stringent test and have the explicit confidence of the new owners. "Private equity firms don't just go into a business and suck information out of the management team," Mark Goodridge at ER Consultants adds. "They spend a lot of time with the management team, discussing issues, taking seriously the ideas of the people who impress them." That has direct benefits for the way in which an organisation develops strategy: "It builds engagement among the new management from the outset," says Goodridge, "so you're less likely to get that point when you start to translate the strategy into reality when people start to say, 'this isn't what we agreed'." With a smaller number of people more actively involved in the process the opportunity to misunderstand is much more limited. Goodridge believes this is yet another symptom of a maturing private equity industry: "There's been a growing understanding that clever tax and accounting initiatives aren't enough and that, if a private equity firm is really going to add value, it has to know whether the management team in situ has the necessary skills."

From the responses to the MCA survey, it's clear that people are concerned both about the quality of the executives involved in formulating strategy and the extent to which only subsets of the senior management team are involved, leaving some people to feel marginalised and uncommitted as a result. Asked what single thing might improve the way their organisations develop strategy, these were constant concerns:

- We should employ directors with character, ie people who have the will to execute difficult decisions rather than put them off due to fear of making the wrong choice or to the personal effort and risk involved in executing significant change
- We need senior leaders with strategic acumen and leadership skills
- More key people in management areas should be involved
- Our senior management team should spend more time understanding/articulating its strategic issues and should make conscious decisions about where we need to invest more
- Our board should have the courage to impose some form of common strategic vision upon powerful internal barons

Respondents were also somewhat half-hearted when it came to judging their senior managers' ability to implement strategy. Although a third thought they had improved significantly compared with five years ago (Figure 6), 63 percent rated them good, but 18 percent thought they were poor, compared with 10 percent who thought they were excellent (Figure 7).

Turkeys don't vote for Christmas: clearly, without the sudden impetus for change that the arrival of a private equity firm provides, incumbent executives have no incentive to see whether their skills are up to the mark. If anything, they are more likely to add additional board members than replace those that are not performing. Private equity firms have no such scruples: "They're far more likely to get rid of under-performing management teams or

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Figure 6: In your opinion, is your organisation better or worse at implementation than it was five years ago?

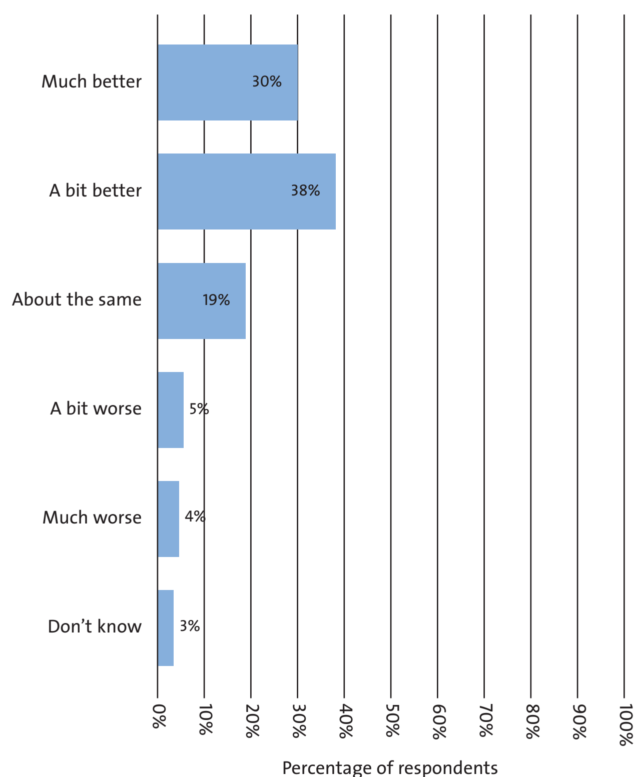
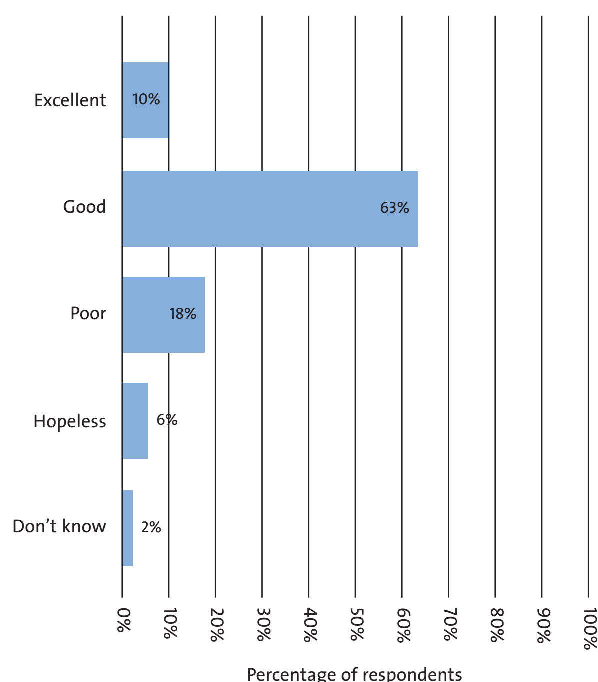


Figure 7: How would you rate your organisation's ability to put its strategy into action?



individuals," says Vincent Neate at KPMG. "They'll bring in capable entrepreneurs, people with a track record and a strong focus on bottom-line performance," agrees Andrew Jurczynski at PricewaterhouseCoopers. "They'll have no hesitation in changing the management team if they think it's necessary. A new executive is far more likely to see the wood for the trees."

"But other organisations could benefit from the idea of management due diligence as well as from the ruthlessness that private equity firms exhibit," points out Jonathan Jones at Hammonds. "It shouldn't require an external catalyst – such as the arrival of a private equity firm – to achieve this." Jurczynski agrees: "Even the largest corporations could replicate this. The sheer diversity of products and geographies covered by these companies means that it should always be possible to find people who can bring a refreshing perspective. What does it mean when organisations say they want to emulate the private equity culture? It comes down to entrepreneurialism."

A single-minded focus

"Everything comes back to exit multiples and return on investment," says Caroline Firstbrook at Accenture. "Private equity firms rigorously translate everything into numbers, and that filters out things that are interesting but not relevant, the things that often muddy the corporate waters. They're quite relentlessly focused on the right answer and are fully prepared to steam-roller management in order to make decisions that ensure they'll realise their objectives."

For private equity firms, cash – not simply revenue or profits – is king. "You can have a good career in the corporate world without understanding cash, a large organisation cushions you against this reality," says Steve White at Durrants, "but with private equity there's a huge focus on cash at the end of the day. It's stripped-down capitalism, and that forces you to think in quite different ways. It's very demanding, but it liberates managers. As a means of getting growth and value out of a business it's unquestionably better than the traditional corporate P&L."

The back-to-basics focus on cash and value has four distinct advantages:

- **A clear objective:** Most organisations are pulled in different directions. Should a publicly-owned company improve customer service or cut costs? Should it reduce its carbon footprint or invest in new products? The problem is even worse in the public sector, with managers under pressure to keep costs low, become more "citizen-centric" and improve their own capabilities, apparently simultaneously. Private equity, because they can concentrate on this one, over-arching metric, are less likely to be distracted by such internal dilemmas. As Roy Barden at Catalise

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points out: "A private equity firm buys a company on the assumption that there's an asset that's undervalued, a customer segment untapped or a process that could be much more efficient. Once the deal has been signed, everything it does is single-mindedly to help it exploit this opportunity." "Private equity firms spend considerable time up-front doing their homework, understanding the value they expect to generate, and what measures need to be taken to unlock it," agrees Charlie Goddard at Troika. "This preparation enables them to set clear focused objectives for the business as part of the design for a deal. It's when you don't start with clear objectives that a business runs into trouble: you end up with people pursuing different agendas, a lack of internal co-operation and a resistance to make necessary change."

- **Adding, not taking away:** "The popular image of private equity firms as asset-strippers is largely undeserved," says Paul Morrison at Alsbridge. "You generate cash by adding value, not destroying it." Having experienced this first-hand, Richard Feigen at Seymour Pierce agrees: "You can't grow a business by down-sizing it. Indeed, because the purchase price is high, private equity firms are usually looking to make substantial, not incremental, improvements to a business." "What private equity firms do well," says PwC's Andrew Jurczynski, "is have a very clear idea of how they're going to add value before they go into a deal. This includes using capital more efficiently, getting rid of non-core activities and growth. Can they leverage current customers better, perhaps by cross-selling? Can they extend the business into new markets overseas? And their capacity to invest is much greater than other owners." "Banks are more willing to lend to an organisation where private equity is involved," explains Vincent Neate at KPMG. "The companies private equity firms invest can also raise more debt because they don't have to worry about how their gearing is perceived by the public markets."
- **Knowing when not to invest:** In Steve White's view, publicly-owned companies are more likely to throw good money after bad. "An organisation that uses cash as its objective measure of performance will know when to stop investing in a failing business," he argues. "Public companies often let divisions or subsidiaries lapse, gradually starving them of resources rather than making a clean break." "Financial rigour is an absolutely essential starting point," agrees Charlie Simpson at PA Consulting Group, "otherwise you can end up investing in a business that destroys value."
- **Financial expertise:** Strategy is often developed in a vacuum, and decisions made on qualitative not quantitative data. "The financial literacy of most general managers is pitifully poor," says Simpson. "They talk about a lot of things, but not financial value. They've invested emotionally in an area and won't let go: everyone has their pet project." By contrast, "deal craft" – the ability to understand where value will, and will not, be generated, is, according to Vincent Neate at KPMG, "the life blood of a private equity firm, their day job."

Clearly, all four points are just as applicable to publicly-owned companies. Jon Male recalls his time before joining Hitachi Consulting when he worked for a major bank. His team were looking at whether the bank should launch its own credit card, a process that could easily have descended into a discussion about marketing. "But we used the idea of profit pools to show how we thought the market would develop," says Male. "We forecast what would happen if we did nothing then quantified what would happen if we added on each of the initiatives we were considering, one by one, and used this as a framework we could discuss with different parts of the business." This approach had two advantages: "It helped us look at the inter-relationships of different factors – companies often either plan product lines independently of each other or lump everything together, whereas you really need to understand how different elements of a strategy affect each other. It also helped people see what impact on profits our actions would have. Many strategies don't make that link explicit: they become lists of projects and don't provide an integrated way to evaluate the relative merits of different initiatives. There are now some very good tools on the market to help people carry out just this kind of analysis, but they're not widely used. Organisations still plan strategy in a bubble, assuming – for example – their competitors won't have an impact or that their customers' behaviour won't change."

However, the ability to focus on a single measure of success is symptomatic of another advantage a private equity firm has. As its name suggests, a private equity firm is not subject to the vagaries of the public markets. It can take a long-term view of success, rather than be tied to the treadmill of quarterly reporting. "Private equity firms can follow through a course of action rather than respond to short-term actions by their competitors or trends in their industry," says Caroline Firstbrook at Accenture. "There's a lot less distraction."

"We could have gone to the banks and borrowed the money we needed," says Richard Feigen at Seymour Pierce, "but we were concerned about how we'd pay this off if the market turned. Private equity firms understand this: they're less concerned about how you performed in one given quarter than whether you'll achieve the overall objectives set. From a management point of view, that's very helpful." "Stock prices have a strange effect on publicly-owned companies," says Chris Bowers at Hay Group. "We've been working with one company that has just had its best ever quarter but its share price has gone down because it wasn't

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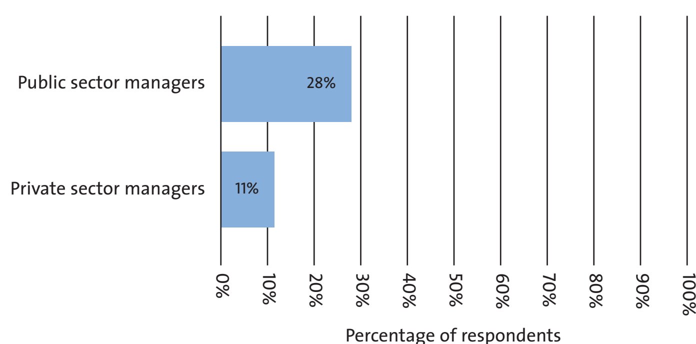
what the analysts were expecting. One division has a hiccup and the share price is doomed." It's very hard for publicly-owned companies to make long-term investments or stick with changes that take years to yield benefits in an environment that demands almost instant results.

"It is possible for publicly-owned companies to stand up to the market," says Dave Machin at The Berkeley Partnership, "but it doesn't happen very often. The chief executive has to be prepared to explain and justify their strategy. If that's articulated, the markets are shrewd enough to take it into account, but everything depends on the clarity with which it's communicated. It also follows that publicly-owned companies should resist the temptation to get a new chief executive every time they've announced a poor quarter: that kind of thinking won't help anyone focus on long-term performance."

So can the idea of a single measure of success be applied in the public sector? Our survey showed that public sector managers are almost three times as likely to see strategy as a means of getting their thinking in order (Figure 8).

Figure 8: Proportion of respondents agreeing with the statement "Strategy helps us get our thinking in order"



Peter Walmsley has been involved in the strategic planning process at the Office of Government Commerce. "The sheer complexity of modern government means we're certainly pulled in different ways," he says. "OGC, when it was set up, was given some quite clear financial goals – achieving more than £20 billion in savings by making government procurement more efficient – but we also have more qualitative objectives, to manage and improve relations with and performance of the government's engagement with its major suppliers. That's symptomatic of a more general challenge for the public sector: there's no unifying profit motive." Thus, while it tends to be clear what any given department stands for at a high level, business units within the department may have different objectives, such that linking and reconciling these objectives with the overall aim can on occasions be a complex task. That, in turn, can lead business units to develop their strategy relatively independently.

But there are some who think that it should be possible to apply private equity discipline, even in the public sector. James Close is a corporate finance specialist at Ernst & Young who has worked with the Shareholder Executive – set up by the UK government in 2003 to improve its performance as a shareholder in business – and the government's defence research agency, Qinetiq, a minority stake in which was sold to Carlyle, a private equity firm, in 2003. "Cash in government is perceived in a different way," he admits, "but that doesn't mean you can't apply the discipline private equity firms bring in some parts of the private sector." He points out that the government has benefited from Carlyle's involvement in Qinetiq: "Much of the increase in Qinetiq's value has come from a very aggressive focus on cash management," he says. "The government has quite a sophisticated approach to using capital but there's a limit to what it can do. Carlyle can also invest more because it can borrow more – gearing in the public sector can be quite difficult."

Success here may pave the way for similar ventures with other government support services. A 2007 report by the National Audit Office on the Shareholder Executive value drew the same conclusion: "The Shareholder Executive has improved government's performance as owner of public businesses and is already producing some real financial gains for the public sector." Close believes the potential is considerable: "The Shareholder Executive has been in existence for three years now. It's applied many of these principles effectively but what more can it do? Proposed mergers between hospitals raise questions about how you can apply M&A thinking in the healthcare sector. What approach to investment appraisal should you adopt? What level of return on capital would be reasonable? Whether or not private equity firms do become involved, their thinking is helping to raise the debate about how public sector organisations add value. It takes us beyond purely considering public sector organisations as altruistic deliverers of public service."

"Those who use public services, and who fund them as taxpayers, have the right expect government to invest public money in such a way as to deliver the best possible 'value' and the idea of thinking of a government department as a portfolio of projects in which we have invested public money is quite helpful to this approach," says Peter Walmsley at the OGC. "Much of the value comes from recognising, just like a private company, we don't have unlimited resources and that our strategic planning should be focused on the integrated whole, investing in the areas that generate the greatest value."

A dispassionate view

The partially external position of a private equity firm and the financial rigour it brings injects a level of objectivity often lacking

in an organisation's decision-making process. It sets a standard against which success and failure can be unequivocally measured and plays a vital role in ensuring one of the other features of private equity involvement: emotional detachment.

"Any manager can get too close to their business," says Roy Barden at Catalise. "They become too accustomed to the status quo and accept barriers rather than challenging them." "When a private equity firm comes in, they're not beholden to the old culture," says Chris Bowers at Hay Group. "As outsiders, they can immediately see through it and challenge accepted thinking. From their point of view, one of the advantages of being actively involved in strategy development is that the process allows them to help people in the organisation see things more clearly."

Private equity firms reinforce their arms-length position by gathering facts, rather than relying on managers' opinions. "They're tremendously thorough about the way they do this," says Charlie Goddard at Troika. "They want a realistic appraisal of current strengths and weaknesses. Obviously, almost every organisation goes through some type of data-gathering process when it comes to developing a strategy, but the process is better when it's being run by people who have no axe to grind and who genuinely want to work out what's best. Where organisations do this for themselves, they tend to come up with reasons why they can't do things." "They can play the role of 'idiot savants'," agrees Dave Machin at The Berkeley Partnership. "Unencumbered by too much knowledge about a business, they don't know why something can't be done. And that forces the management team to re-examine their assumptions. Moreover, managers themselves often don't understand how much better their business could be performing: they don't know the cost of doing nothing."

Private equity firms are also better at knowing what they don't know, believes Steve White at Durrants: "They're bankers so they generally think in fiscal terms. That's not a problem because they're willing to bring in expert assistance when required." Vincent Neate at KPMG agrees: "Even where a private equity firm is a specialist in a particular industry, it will still tend to view the transaction in financial terms, so getting other people in to do the due diligence makes sense. They want to bring in the best in terms of help."

Much of that expert assistance comes from consultants who can help a private equity firm gauge whether the assumptions made by the managers of a business stack up. "All the due diligence they undertake comes down to that one basic question," says Charlie Simpson at PA Consulting Group. Of course, that question may take many forms. What are the barriers to entry and exit? If you're getting 80 percent of your business from a small number of customers, how robust is your pipeline? Is your core product fit for the way the marketing is likely to develop over the next five years? Part of Simpson's job is to help private equity firms answer such questions: "Our role is not just to gather the information but to uncover issues the company's management may not have spotted, by, for example, interviewing key customers and suppliers."

Private equity firm's use of consultants is evidence of something more. Put their objectivity with their focus on cash and value creation, and it becomes clear that private equity firms tend to be much clearer about what is core and non-core to the businesses they invest in, and they're more likely to outsource the latter. "Outsourcing fits well into private equity thinking," says Paul Morrison at Alsbridge, "especially for the mid-sized firms they usually target. Typically, these are companies that don't have vast arrays of internal expertise to tap into, so there's a lot they can gain from outsourcing."

But larger firms can benefit from the same approach: "The philosophy that says you should focus on only those processes which are at the heart of your operations can be just as useful to multinational corporations," says Morrison. Peter Schofield at EDS agrees: "Businesses are hugely complex, so you need to look at how you're going to win and where your competitive advantage lies. Success depends on identifying these areas and focusing on them: it doesn't come from trying to be all things to all people. Large organisations often have multiple projects involving many people running simultaneously. Individual projects may be well-run but the sheer volume of activity means that people within the organisation may lack a simple, understandable picture of what they're trying to achieve."

When they come to develop a strategy, most organisations undertake an extensive process of gathering information. Among the respondents to the MCA survey, only 4 percent admitted gathering no information, compared to roughly three quarters that used overall trends in their industry (Figure 9). Two thirds of respondents said they used information from internal sources, customer surveys and competitors' analysis. 59 percent said they gathered more information than they did five years ago.

Amanda Derrick's e-Admissions project is a good example of this in practice. "The first thing we did was some very detailed research," she says. "We looked at the barriers perceived by all stakeholders: local authorities, parents and schools – if they didn't promote it, parents wouldn't use it. We talked to parents and carers; we read admissions booklets; we looked at existing websites. We investigated every possible obstacle and tried to identify a way to overcome them."

Ken Whitton used to be Kingfisher's Director of Strategy and is now a consultant and executive coach: "As Jim Collins has famously

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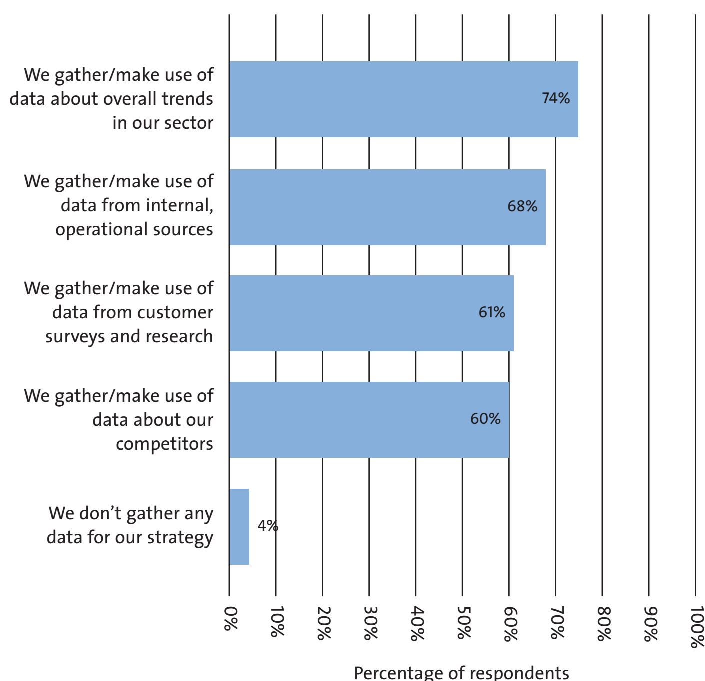
Figure 9: What kind of data do you gather to help you develop your strategy?



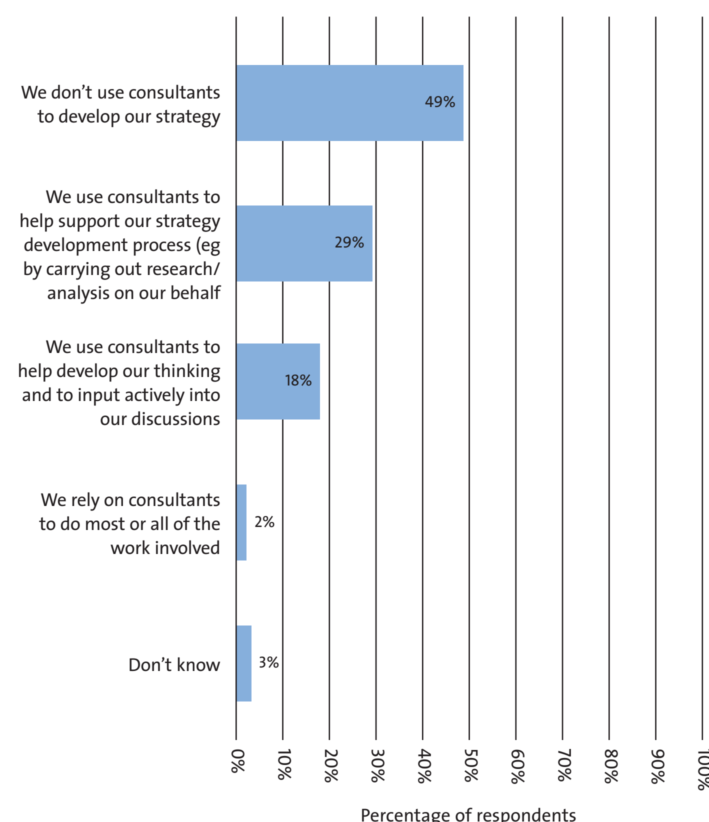
pointed out, you have to face brutal facts while never losing faith in your ability to ultimately prevail. I think we had an objective process, but you always have to be very self-aware when it comes to strategy" He remembers taking part in extensive discussions about whether Kingfisher's subsidiaries such as B&Q should shift from short-term price discounts and sales to "everyday low prices" – an approach pioneered by Home Depot in the US. It was a complicated debate: success depended on having to compensate in almost every other area of the business for the lower margins so the decision to go ahead involved a rigorous debate about the impact. "People tend to celebrate marginal improvements when they're looking for step change, so you have to be able to gather the relevant facts and look at them from a clinical point of view." He's a big believer in balanced scorecards as a way of helping organisations do this: "You need a strategic monitoring system, helping you track many variables at once, whether that's car park densities, employee satisfaction, or stock availability." At Quest Worldwide, Steve Smith agrees: "I'd prefer to see organisations having a one page, balanced plan covering the marketing, operations, people and finance rather than a strategy that runs to hundreds of pages, many of which ironically focus on just one of these aspects. They need a smaller number of time-specific goals and a picture of what they want their organisation to look like in a few years time."

And therein lies the rub: information can help organisations be objective, but it can't guarantee it. When respondents to the MCA survey were asked what single thing would most improve their ability to develop strategy, a common theme that emerges is the need, not just for more information, but for more external and objective information:

- We should draw from outside experience
- We need to adopt a more rigorous, fact/data-based and commercially-oriented process
- There should be an independent body to challenge the strategy formulated by senior managers
- We should develop a dialogue with organisations that have similar strategies in other markets in order to share learning
- We should look outside our organisation
- We need to be more aware of the direction our market place is going
- There should be more engagement with our clients/customers

If we use the extent to which organisations bring in consultants to help develop and/or implement strategy as a proxy for the level of external, independent input organisations receive, then almost half have no independent input (Figure 10). Of course, consultants are by no means the only source of such input, but this figure does suggest that many organisations do not use the process of

Figure 10: In what way, if any, do you use outside consultants to help you develop your strategy?

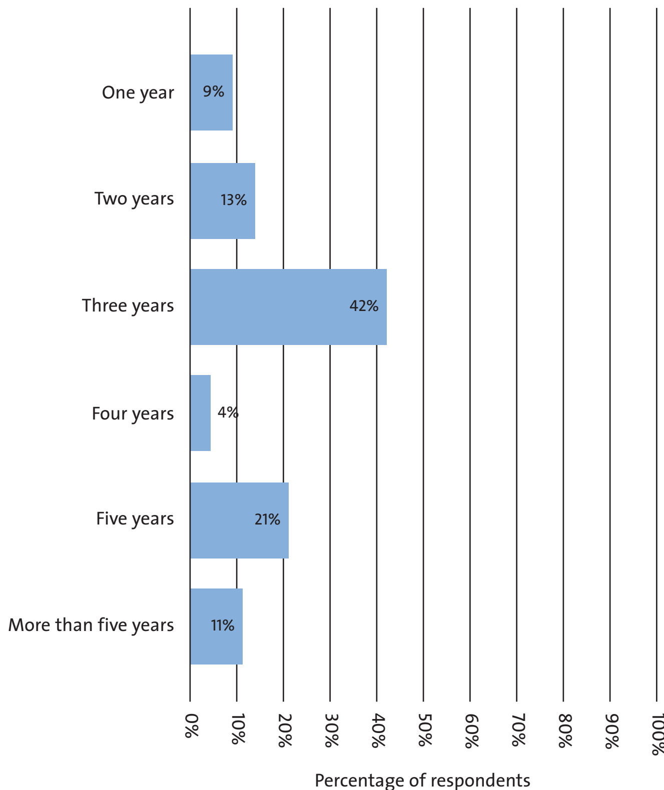


developing a strategy to stand back and see their businesses through others' eyes.

The need for speed

On the basis of the MCA survey, half of all corporate strategies cover a three year time period: 42 percent of respondents said this was the case, compared to 21 percent who said their strategy covered a five year period and 13 percent who said it covered two years (Figure 11). People are generally comfortable that these timescales are not so long as to make the strategy worthless: 80 percent disagreed with the statement "I don't think there's much point in developing a strategy because things change too quickly." However, they are less confident when it comes to the efficiency with which they develop these strategies: only 24 percent agreed with the statement "we have a very efficient process for developing strategy" (Figure 12).

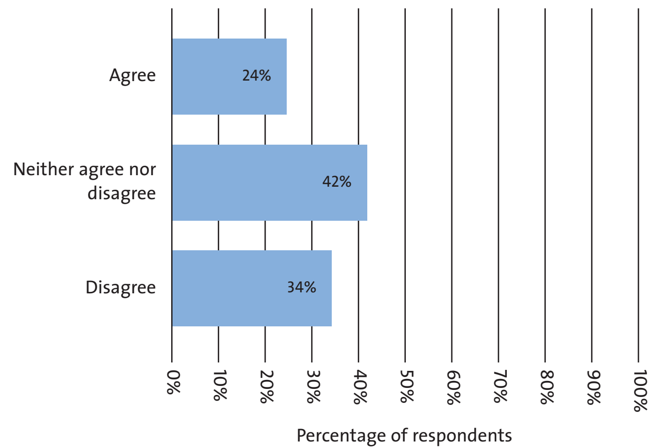
Figure 11: What time period does your organisation's strategy cover?



Private equity firms typically give themselves 100 days: whatever they do, they do quickly. "It creates a sense of urgency which corporations rarely match," says Steve Smith at Quest Worldwide. "It helps, too, that they know they'll want to exit the business in – say – five years. That's enough time to get a reasonable return, but it's not an open-ended commitment."

"It's not just the content of their strategy that's important," says Roland Fitoussi at Solving International, "but the speed with which they take decisions and act." He believes that many organisations underestimate the importance of time: "They think that, once they've developed their strategy, time is a given, it's not something they can do anything about. But there are examples – look at Nokia – of organisations that have re-built their business metabolism extraordinarily quickly. Private equity firms are very agile when it comes to acting on new trends in the market and selling products or business that are not of interest."

Figure 12: We have a very efficient process for developing our strategy



Speed is partly the result of objectivity: "They're good at not getting bogged down," says Vincent Neate at KPMG. "Although they start with their 100 day plan, they also accept that things will change within this time frame, that they haven't always made the right assumptions." Corporate managers are more likely to become wedded to their plans: perhaps because those plans take more time to develop and cover longer time periods, they find it harder to abandon them and start again when they've been proved wrong.

It is also, Roland Fitoussi believes, a consequence of focus: "Unlike managers in the corporate world, they won't hesitate to cut costs and expenses sharply if that's what's needed to be able to invest more in – say – marketing. It adds up to quite a different way of working – one that publicly-owned companies, because of their size, ponderous structures and slow decision-making processes, find hard to match. The typical senior manager in a large corporation can easily spend all of his or her time trying to manage risk and overseeing control mechanisms: how can they be agile?" As Andrew Jurczynski at PwC points out, much of this depends on the markets in which a business operates: "Organisations reflect their environment. Software companies tend to be good at bringing new technologies to market quickly: if they didn't, they'd die. But things move more slowly for a water company, and the company's culture will reflect that. Private equity firms have the enormous advantage of being able to choose the companies they invest in."

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Most publicly-owned and public sector organisations only move quickly when threatened. "It's harder for incumbent managers to detach themselves and they're often reluctant to abandon their existing strategy, especially where it's not obviously doing badly," says Steve Smith at Quest Worldwide. "But it is possible for an organisation to generate its own sense of urgency. They can use tools such as scenario planning to help them understand the longer-term trends." Peter Schofield at EDS is less sanguine: "The corporate world believes speed is high-risk," adds Schofield, "and that's not the case in practice. In fact, the greatest risks stem from taking too long to do things – that's when you lose executive commitment and the ability to drive change from the top. That's when you end up with too many 'sponsors', none of whom have a clear sense of personal ownership. That's when people throughout the organisation lose heart."

PART 2: FROM STRATEGY TO IMPLEMENTATION

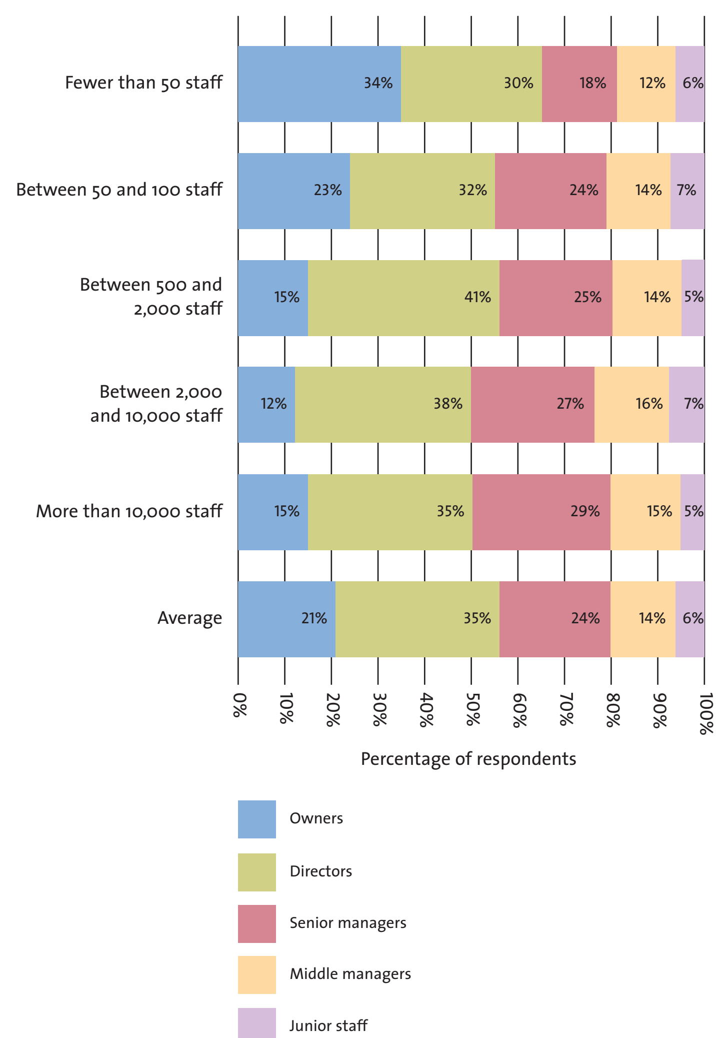
Our research suggests that private equity firms have five distinct advantages when it comes to developing strategy: the clout that comes from ownership, the ruthless weeding out of poorly-performing managers, single-minded focus, objectivity and speed of execution. While these factors are not exclusive to organisations owned by private equity, they are less likely to occur in publicly-owned or public sector organisations and they may therefore go some way towards accounting for the gap between the effort people put into their strategy and the value they obtain from it.

However, all five private equity advantages are designed to have an immediate and dramatic impact on a small number of people – the management team of the companies they acquire. And in this respect at least private equity firms are no different to large corporations. The MCA survey suggests that, on average, 80 percent of input into strategy comes from a combination of owners, directors and senior managers; middle managers and junior staff account for around a fifth of the input. If we break these figures down further, by type of firm, we see that – not surprisingly – owners are most active in small businesses, but also that the low level of input provided by middle managers and junior staff is relatively consistent across organisations of all sizes (Figure 13).

What's also consistent is how much people want this to change: across all sizes of business and irrespective of their own position in the organisation, around two thirds of people want to see more input from middle managers and junior staff (Figure 14).

The results become even more marked if we compare the involvement of different groups of people in developing strategy to their involvement in implementing it. Asked who contributed what proportion of the effort when it came to implementation, middle managers and junior staff now account for a third of the input (Figure 15). Moreover, larger firms require these people to put in proportionately more effort, even though they are no more involved in developing the strategy than they would have been in a smaller organisation. Again, respondents wanted to see more involvement from middle managers and junior staff in implementation (Figure 16).

Figure 13: Who has what input to your strategy?



Not surprisingly, when respondents were asked what they saw as the single, most significant obstacle to implementing strategy, their most common response was that people lacked a sense of ownership of their organisation's strategy and that they therefore did not feel responsible for its successful implementation (Figure 17).

Ownership, involvement and engagement at all levels were constant themes in the responses to the MCA survey. Asked what single thing would most improve the ways their organisations develop and implement strategy, people said they should:

Figure 14: Who would you like to see more or less input from in developing your organisation's strategy?

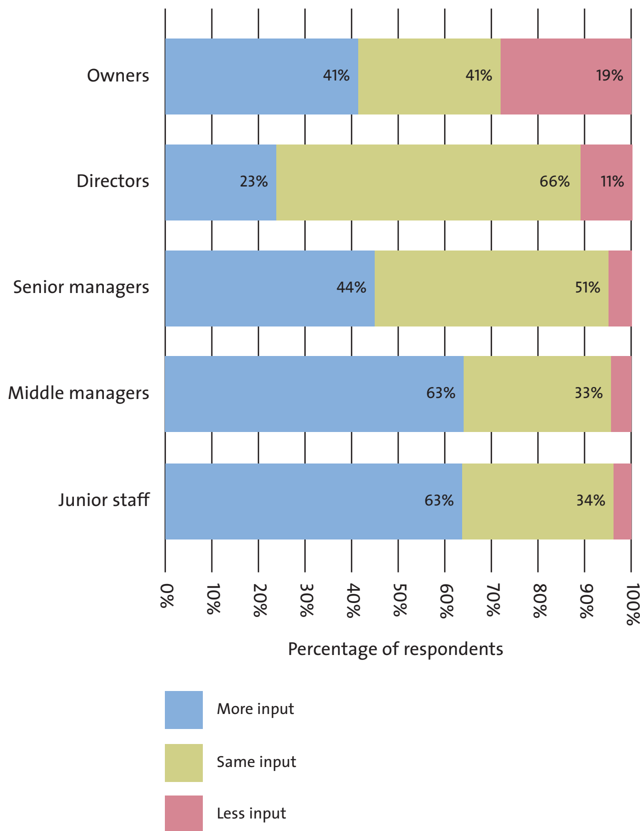
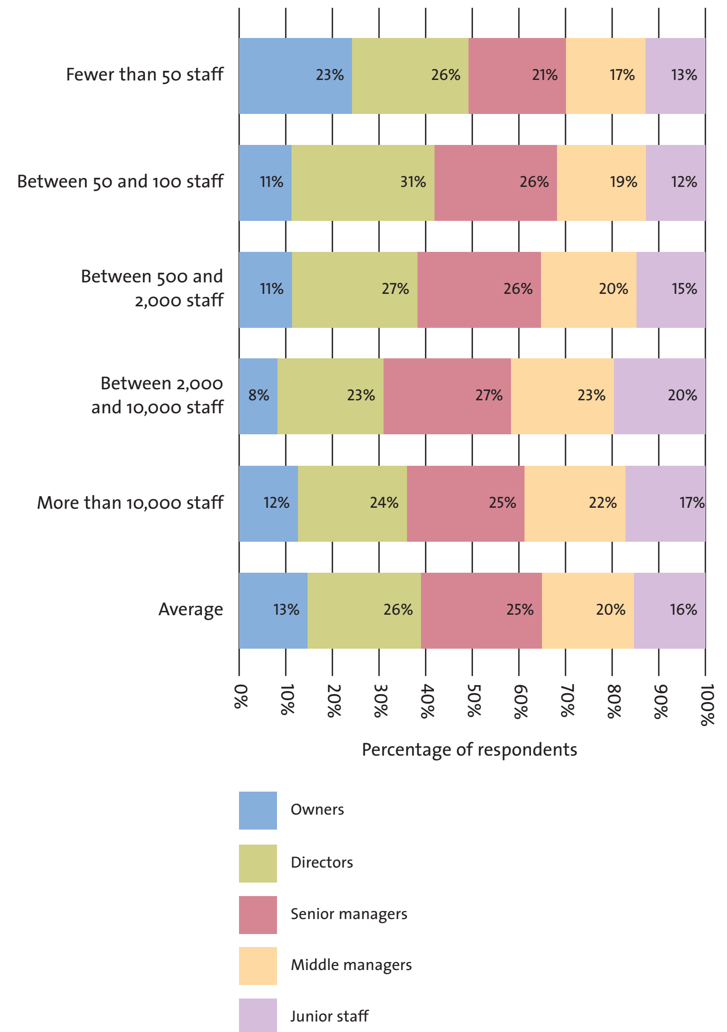


Figure 15: Who contributes what to the implementation of strategy?



- Involve people more effectively
- Be more inclusive by having more (different) inputs in the strategy planning
- Have better discussions among the middle level managers
- Hold workshops with different levels of staff to get their input
- Truly consider staff as an asset rather than merely espouse the idea
- Involve more of the middle and junior staff
- Engage more people in the process
- Promote the participation of staff 'at the coal face'
- Listen to staff on the front line and feed this back into the process

This is perhaps where the attractiveness of the private equity model starts to fade. With all its advantages, it doesn't have the capacity and perhaps the inclination to engage people at different levels of an organisation. "One of the ramifications of a private equity firm going in with a clear strategy and a new team is that people can feel disenfranchised." "It's the downside to their focus," agrees Arup's Alan Marsden. "Their energy is channelled into how to make their return and they can forget that a business is made up of people. They focus on the top of the organisation but often ignore those who are at lower levels. Employees end up being marginalised and they disengage." At ER Consultants, Mark Goodridge points out that many organisations spend more time developing strategy than implementing it: "There should be a better balance of the two – a question of deciding what to do, then doing it, rather than constant revolution."

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Figure 16: Would you like to see more or less contribution from these groups?

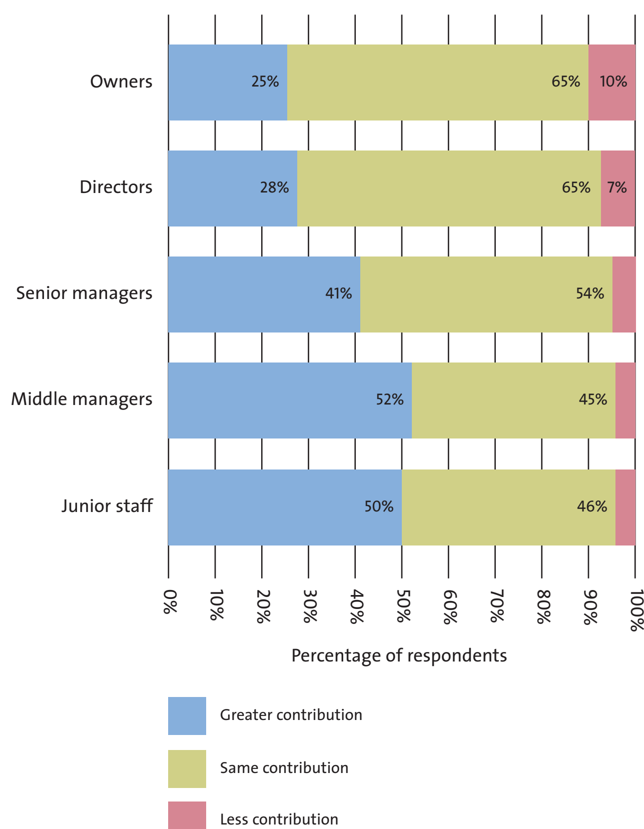
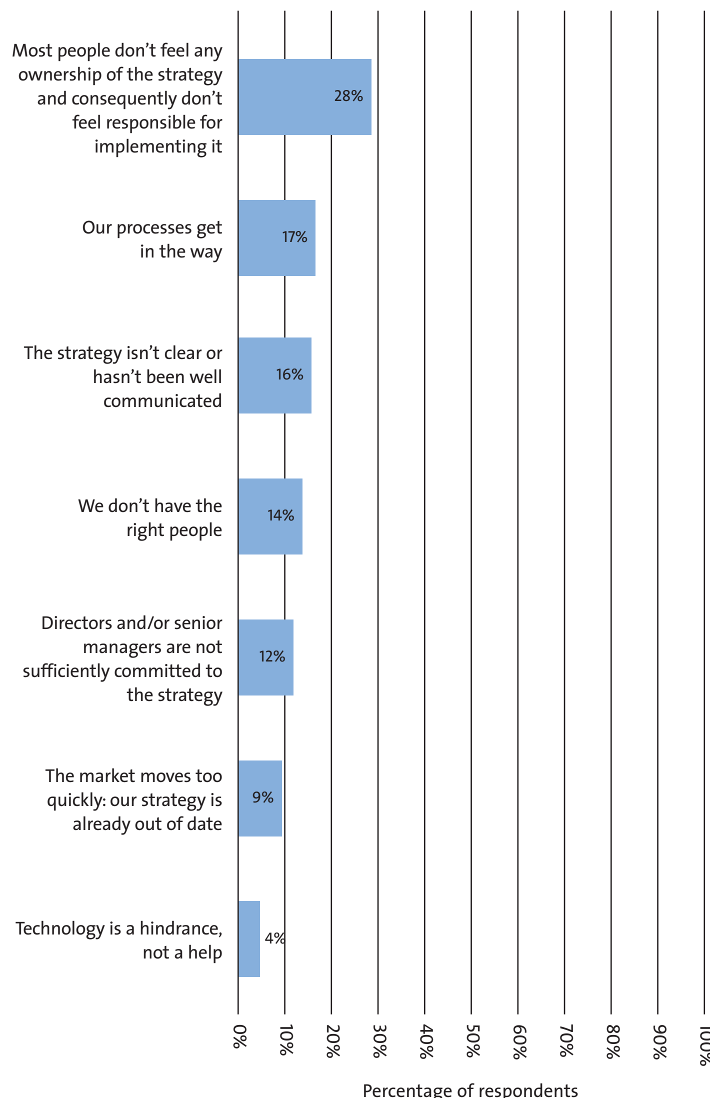


Figure 17: What do you see as the most significant obstacle to implementing strategy?



The second part of this report looks at how organisations could close the remaining gap between the effort they invest in their strategy and the benefits they reap from it, by:

- Seeing "ownership" as something more than financial
- Communicating in clear and practical terms
- Changing behaviour
- Balancing the private equity-type rigour with an acknowledgement that the best strategies may emerge rather than be planned

Beyond financial ownership

"The best strategies are developed by involving as many people in an organisation as is realistically possible," says John Higton at The Berkeley Partnership. "Most organisations don't acknowledge or nurture the expertise they have in-house, let alone tap into it when it comes to drawing up their strategy. We have to harness the expertise and energy of the people inside our organisations."

Adaptability is important in its own right but also because people are more likely to feel ownership of something they've had a hand in.

"You can't draw up a rigid plan and expect the numbers to come out," says Arup's Ian Hackett. "There has to be a mechanism for ensuring people are involved." "Organisations often ignore ideas available internally," says his colleague, Alan Marsden. "They may not even think it's necessary to talk to people in different areas of their organisation but instead make assumptions about how people will react. But a strategy will fail if you don't involve people in the process." Marsden has been working with Danish Railways

and has been impressed by the extent to which it has sought to canvas the views of people at all levels about the future, sending the information up to the board in contrast to a conventional "cascade" process of communication. "But Danish Railways has a huge advantage in that it's a compact organisation focused on one business. Listening to people is much harder when you're spread across multiple continents and product lines."

"People who feel like a small cog in a big machine rarely have any sense of belonging," agrees Paul Alcock at Acteon. "They're more likely to assume the organisation's strategy is nothing to do with them. That's why we purposely shy away from writing long documents. You can't predict everything and in some ways you don't want to." Peter Schofield at EDS agrees: "Strategy is really a question of having a well-articulated picture which is grounded in reality, which helps everyone understand how their actions contribute to the organisation's overall objectives and which allows management to prioritise and lead. Often, the people who can see the big picture can't deliver and those that deliver can't see the big picture."

"What's better?" asks Mark Goodridge at ER Consultants. "Having a brilliant strategy that people won't accept or having a mediocre one that is? If you start from the point that strategy is something you want to do rather than just talk about (and many organisations don't start from here), then the number one issue is building ownership and commitment." Roy Barden at Catalise makes the same point: "You have to turn strategy into something that's real at an individual level."

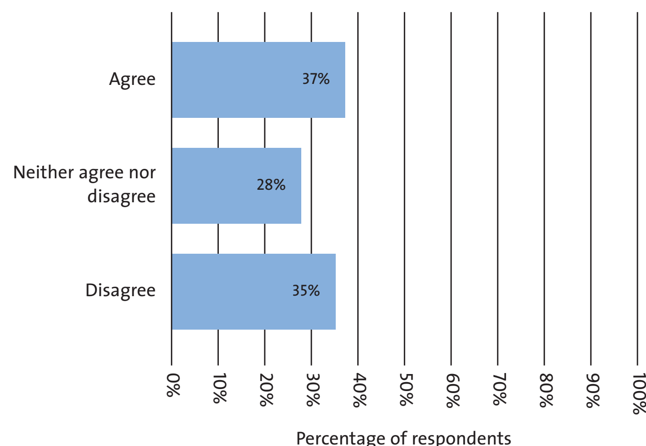
Ownership drives commitment and commitment drives alignment argues Steve Smith at Quest Worldwide. "Most organisational teams aren't naturally cohesive," he says. "The process of creating and owning a strategy is one of the best ways to build commitment and ensure that everyone is working together towards a common goal."

Clarity of communication

You can't get alignment or commitment if you don't communicate – yet that's exactly what 35 percent of respondents to the MCA survey criticise their organisations for doing; only 37 percent actually agreed with the statement "We're good at communicating our strategy to people at all levels in our organisations" (Figure 18). The theme cropped up again when we canvassed respondents' thoughts on what needs to change:

- We need to communicate at all levels
- There should be more frequent debate and discussion
- More detail should be disseminated to staff below director level
- We must be bolder and more confident in sharing the thinking through the organisation

Figure 18: We're good at communicating our strategy to people at all levels in our organisations



- We need to improve internal communications to allow more staff to understand direction and contribute feedback to middle/senior team

"Communication is a big part of how you get the best out of people," says Arup's Ian Hackett.

That's certainly something that Amanda Derrick at the Department of Education and Skills agrees: "We had a really good, passionate team for whom failure was not an option, but we were acutely aware that many local education authorities had very limited resources, so we had to focus on essentials. We did lots of research, but we boiled it down to 14 sheets of A4 which laid out the steps to success, covering everything from how to engage parents and carers, the admissions booklet to working with key suppliers. Our attitude was that we had to work with them and to try and share as much as possible."

An unexpected benefit of the lengths Derrick and her team went to in order to communicate effectively with local authorities was that it encouraged people to give feedback. "They'd ring us up and tell us what had been helpful and what was less so," she says. In developing and implementing strategy the communication process has to be two-way. "You have to know that people have understood what you've told them," says Charlie Goddard at Troika. "You have to be able to get over the 'what's in it for me?' question and explain to people, not just what they would have to contribute and how they should do this, but why." "Organisations hardly ever check that strategy is consistently interpreted," agrees Ashley Unwin at Deloitte. He recalls working with one organisation that said it wanted to become a "global leader": "When you asked different people in the organisation to say what they thought they meant by this, some thought it was referring to infrastructure, another to buying a company in China, and so on. You can't implement a strategy successfully on the basis of different views."

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The communication has to be practical. "Strategy," says Ken Whitton, "comes down to two questions. What do your customers want? And how can you make money from giving it to them? Lots of people forget the latter so they tend to get only one part of the equation right. You have to sit down with people and thrash out what they're going to do that's different and that will give them a unique advantage in the market. " At Hitachi Consulting, Jon Male agrees: "Strategy too often becomes grandiose aspirations: not enough effort goes into exploring what they'll mean in practice with the people who'll actually have to execute them."

Changing behaviour

Asked what would make a substantial difference to the way his organisation developed and implemented strategy, one respondent to the MCA survey wrote: "[We need] a more participative strategy.... We have shelf-ware by the tonne but it's all useless and driven by a top-down agenda that says we must have a paper document. Our people have no idea what our strategy is so it can't affect their behaviours as all good strategies should. If your strategy does not change how you behave – collectively and individually – it's a waste of time."

Ashley Unwin at Deloitte couldn't agree more. For him, strategy is articulated at a level that's far too abstract and which doesn't help the line manager understand what to do differently or to aid them in their decision making. "If you look at organisations that remain competitive over long periods of time, you find they articulate strategy at a meaningful level and don't seek be great at everything nor outperform their competitors in all aspects of what they do," he argues. "They identify a small number of things that can create differentiation in the market and seek to outperform at these." What that's done is force Unwin and his team to re-think how they help their clients develop and execute strategy: instead of trying to change everything in the context of some abstract statement about customer or geography or market success, their focus shifted to what he terms the "event level". "If you identify a small number of events, derived from the strategy around which superior and consistent performance will create market differentiation you will positively impact the organisation's performance. Some of these events are table stakes and some can be multipliers having a disproportionately positive impact on the business. We have found that key to this out performance is the behaviour of employees in relation to the events; after a certain number of events are transformed you get to a tipping point. Organisations often assume that these things are thought through, or will happen by themselves if they get their strategy right." Unwin has been working with a company which, although it's a highly-regarded services business, can't explain what it means when it says it wants to be the consumer's champion: "They could have take the mugs-and-mouse-mats approach of advertising a desired culture that is customer centric, but we have convinced the client that these approaches don't lead to sustainable behavioural change. Instead, it's developed an event-based strategy, focusing on a small number of customer interactions which, if done well, will improve the company's performance and transform its reputation in the eyes of the consumer. The cultural -values approach does not work because it is often deployed void of strategic context: you have to make an explicit connection between the behaviour you want to change and the strategy you're trying to execute."

Reward and recognition

Another characteristic of the way in which private equity firms work is that they use their position as shareholders and their clear fiscal metrics to give senior managers a greater stake in the businesses they run. "Large corporations often talk in terms of shareholder value, but they don't articulate their goals in financial terms," says Charlie Simpson at PA Consulting Group. "A private equity firm will typically link top management's rewards to financial outputs such as cash generated." "When you acquire a company, you have a lot of freedom of choice, far more than a corporation has," says Vincent Neate at KPMG. "You can choose your management team and say, 'if we get cash returns you do too'. This is far more powerful than external metrics such as share price."

But incentives aren't important for their own sake, as Steve Smith at Quest Worldwide points out: "Incentives can obviously inhibit progress if they encourage the wrong kind of behaviour, but they also don't do much by themselves. What they do is help drive alignment and it's that, together with clarity of purposes and commitment, which drives success." Moreover, Steve White, seeing it from the perspective of a company in which a private equity firm has invested, argues that managers are not simply motivated by money. "Many of the people running these businesses are already quite rich," he points out. "They're doing it because they want the freedom to run their own business or to prove a point to themselves."

Nor should we focus on just the incentives for, and alignment of, senior managers. "The executive team need to agree on the extent of their aspirations and ambitions," says Chris Bowers at Hay Group, "but you also have to consider the motivation of the people elsewhere in your organisation whose capabilities and culture you rely on to make things happen. If your approach to incentivisation is purely top-down then you're likely to encounter problems: it's not just your top people who need to understand how value is created and how they fit into the strategy." "Moreover, the personal goals of senior managers don't encourage team-working," says Charlie Goddard at Troika, "so you have to think about what you can do to encourage people to work together collaboratively and to remove the barriers to internal competition. This needs to evolve in line

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with strategy as the latter changes." "There's no magic KPI," concludes Ian Hackett at Arup, "just so long as people's input is recognised and rewarded."

These comments are borne out by the results of the MCA survey. 54 percent of respondents said their directors do have a substantial financial stake in the business (Figure 19). However, 34 percent believed that the way their organisations recognised and rewarded people didn't motivate them to implement their strategic plans (Figure 20). And perhaps even more revealingly, 51 percent believed that people who didn't help implement the strategy weren't penalised in any way (Figure 21). "Most organisations have no disincentives to be obstructive," confirms Caroline Firstbrook at Accenture. "In many organisations, one of the most successful survival strategies is simply to keep your head down and resist: this will keep an organisation on its existing course way past the time when it should have turned off."

Figure 19: Our directors have a substantial financial stake in the business

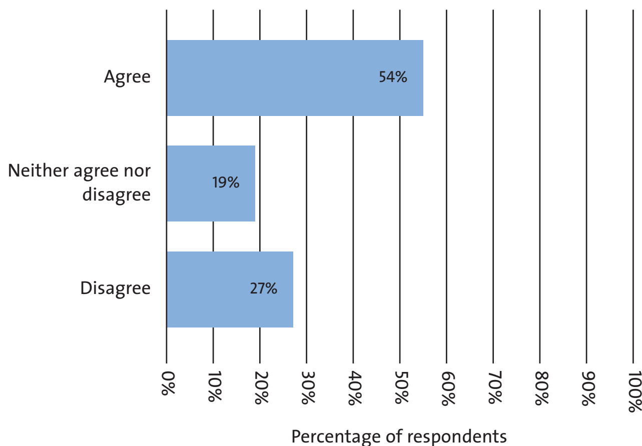


Figure 20: The way people are recognised and rewarded provides a clear incentive for them to implement the strategy

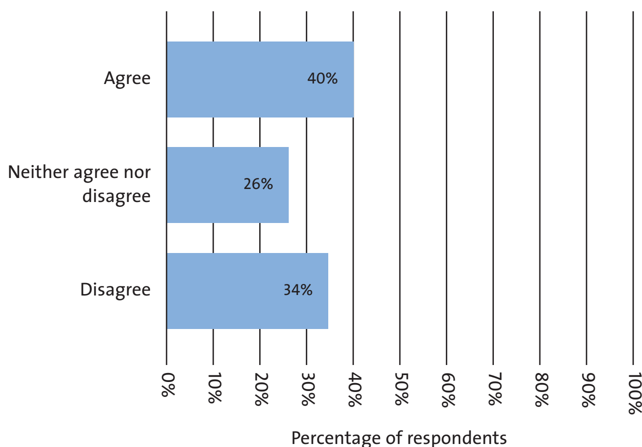
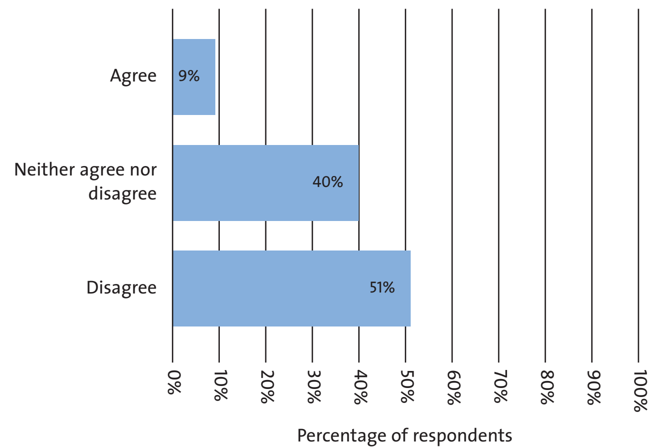


Figure 21: People who don't help implement the strategy are penalised



Strategy as craft as well as rigour

"I've been a consultant; I've got the MBA; I've worked in the corporate world – and I don't believe in strategy formulation as it is painted in text books – the cold, wet towel around the head approach," says Ken Whitton." He cites the example of Henry Minztberg of McGill University in Montreal who famously likened the process of developing a strategy with his wife making a clay vase. "You start off with one idea – to make a vase – but can end up making something quite different. Mintzberg's point is that strategy is a craft in which ideas emerge. We'd use consultants who were clever thinkers but then go and talk to people who'd left school and started off in the stock room – people who really understood the business – and ask them what they thought of the proposals. We undervalue the craftsmanship of management."

Paul Alcock has been the business development director of oil services company, Acteon (formerly UWG Group), since 2000. Most companies in this sector focus on either sub-surface issues (getting the oil out from under the seabed) or surface issues (such as supporting the rig), but Acteon concentrates on the fragmented market for sub-sea services, those between the water's surface and the sea bed. "Our aim is to sit between all the suppliers here – construction companies, well-head and engineering houses, and many more – and act as a single interface between them and the oil companies," he says. It's an unusual company, perhaps best described as a "house of brands", with relatively few central functions beyond health and safety, and financial reporting. It's a fluid environment – literally and figuratively: "One of the pitfalls of strategy is being too prescriptive," he argues. "We've been through periods when we've had to take a more hands on approach approach, particularly where there have been markets we don't want to miss, but as soon as we do this, we cease to be opportunistic."

John Miles at Arup holds a similar view. Arup is one of those rare companies which are owned by a trust for the benefit of employees

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past, present and future and their dependents. "That's the kernel of the firm's being," says Miles, Arup's Chairman of their Global Consulting Business, "and it affects everything we do. A very high proportion of the individuals who work here have a strong belief in what the firm stands for and they are willing to work hard to preserve it."

He describes the firm as a combination of a structured and totally hands-off approach: "We're essentially a collection of villages each of which has its own chief. That means we're good at the coal face of work and we elicit a high degree of loyalty from our employees. We also treasure the freedom this structure creates." This means that, when it comes to developing strategy, Arup takes a two-pronged approach – a combination of both the wet towel and clay pot approaches described by Ken Whitton. "There's a structured and unstructured side to what we do," says Miles. "In the structure approach, we look at where we were, where we are and where we will be and make statements to the effect of, 'if we're going to control this, we need to do x, y and z; we need to expand this line and hire those new people'. But at some point this line of reasoning bumps into our unstructured side. What this side thinks is that things will evolve naturally; that it is too difficult to take an objective decision for the long-term good of the firm because we can't see ten years into the future." It creates, in Miles' view, a healthy debate that ebbs and flows: "Each side has valid points to make. Those in the structured camp argue that, if you keep your head down and follow the road you're on, you sometimes come up against a brick wall. Those who prefer the unstructured approach often stop us from fixing something that's not broken."

What keeps these two divergent views together is that shared sense of acting in the firm's long-term best interests. "We may disagree," says Miles, "but we recognise that, even when we're arguing with each other, we have the same goal: what we disagree about is the best ways to achieve it. Our overall success depends on the strength of our culture – the glue between these villages and chiefs. If the glue was weak, then everything would degenerate into chaos, but it's not: the culture is strong enough to ensure we all work together for the common good."

Mike Liston runs a very different kind of company – founded in 1924, The Jersey Electricity Company is the sole distributor of electricity on the island of Jersey – but his philosophy is not so very different to John Miles'. "Strategy starts with a proper risk analysis of the issues facing the business," he says. "We use standard strategic models, such as those of Michael Porter, as the basis of regular reviews by the board and our executive team. But the challenge here is relevance and currency: no strategy ever survived a brush with reality. Opportunism is increasingly driving change in business and strategy is more and more a tool which helps executives justify how they respond to a threat or opportunity rather than a means of identifying those opportunities. It sets boundaries – for our operating environment and our appetite for risk. It provides guidance to investors, but, as a tool for managing the business, it does little more than prompt us to check how our decisions fit with the business we have described to shareholders. The dynamics have shifted: we've become more comfortable having a strategy that's less specific."

If anything, Liston is more concerned about strategic "fit" internally. "People in an organisation have to be able to reconcile the shifting priorities of their day-to-day work with the framework they were given when they were recruited or that against which their contribution is measured when it comes to annual appraisals," he says. "One of things you always think is how adaptable an organisation is. Are people willing to change what they do and how they behave in response to a particular need, instead of clinging to a strategic framework? There's a comfort in familiarity which we can't ignore, but we have to ensure that our people can interpret the strategy flexibly when it comes to their daily work and what's expected of them."

The size of the organisation makes a difference: in a small organisation it is easier for people who feel threatened by change to have easy access to senior managers, whereas it is harder in a big company to know what is going through the board's mind. "So a strategy from which people are able to interpret a set of values laid down by the shareholders is of huge value," says Liston. "Strategy does have a role, but it's one which effectively sets out the moral principles by which we'll run the business."

This point takes us almost full-circle, back to our initial discussion about the value private equity firms bring to the businesses in which they invest. "Other organisations can be just as entrepreneurial, just as relentless in their pursuit of the bottom line," says PwC's Andrew Jurczynski. "What they see in the private equity model that they want to replicate comes down to cultural change, a different way of working." We also began this report by identifying a gap – more of a yawning chasm – between the increasing amount of effort and money organisations invest in developing strategy and the value those strategies deliver in practice. While the approach private equity firms typically adopt when they take a stake in a business provide many useful ideas for narrowing this gap, perhaps their greatest value – and this is something that could unquestionably be replicated by other organisations – lies in the set of values they establish. The evidence suggests that, if we want to close this gap, we would do better to think of strategy, not as a high level statement of objectives or a detailed blueprint for action, but more as a philosophy of life – what Paul Alcock at Acteon terms an "arc of certainty".

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Arkimeda (www.arkimeda.com) produces an annual report, Whitespace, that tracks developments in thought leadership in the consulting industry.

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The Management Consultancies Association was formed in 1956 to represent the consultancy industry to its clients, the media and government. Management consultancy is an increasingly important industry for the UK economy with management consultancy revenues for 2006 estimated at £8bn. MCA members represent around 70% of the UK consulting sector, employ around 20,000 management consultants and work with the FTSE100 and all government departments. Nine of the top ten UK-based consulting firms (by consulting fee income) are members.

The MCA supports its member firms with a range of services including events, publications, interest groups and public relations. The Association also works with its members to attract the top talent into the industry. The MCA provides advice on the selection and use of management consultants and is the main source of data on the UK market.

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