

SPS INTERVIEW

Kim Warren

Kim Warren is a teaching fellow at London Business School. He calls for greater clarity in strategic method and its application.

What brought you into the world of strategy?

I have always loved intellectual challenges so line management roles never really appealed. Strategy seemed to offer the most demanding and valuable context in which I could apply my curiosity, so I just kept digging into it more and more. I also have a low boredom threshold, so I like to move on from one puzzle to another. This has enabled me to discover more about strategy within a wide variety of situations.

Do you believe strategic planning can help in these turbulent and unpredictable times?

For sure! I just don't buy into this constant refrain that the world is a horribly complicated and uncertain place where planning anything is pointless. Where did that notion come from? Not only is it largely untrue, at least in relation to the scale of difference that good strategic management can make, but powerful organisations don't care – they get on and make their own future.

The world is the way it is today because companies like Microsoft, Tesco, CNN, Ryanair, Toyota and thousands of others have made it like this, not because of some unstoppable natural force.

Which approaches to strategy are most effective nowadays?

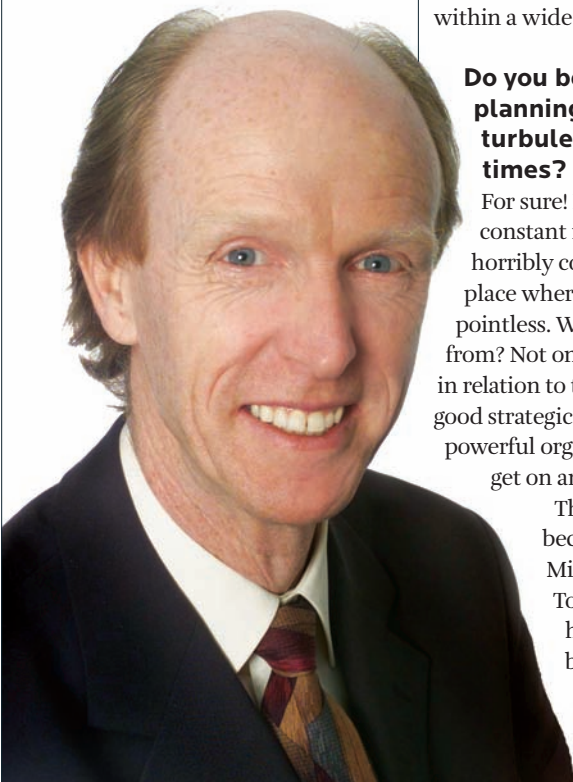
Unfortunately, we don't have a broadly reliable approach to strategy, so it is often worked out from first principles, maybe copying what works elsewhere or just spotting good ways to move forward.

However, there are some basic good practices. For example, we would not be in today's mess if large enterprises had carried out some basic scenario planning. In 1998 colleagues dismissed my suggestion that the dot-com boom had way too much hot air to be sustainable and none of the companies I spoke with in 2006-2007 had given any thought to the possibility that business conditions might get tough.

I learned early on to always ask one key question: What's the worst that could happen to us here? and if the answer was not too bad, then move on with our plans, otherwise revise them – shame our incompetent bankers didn't ask that.

Where is the field of strategy going – in research and practice?

Others may use less dramatic language, but I think it is accepted that the strategy field is in crisis – even academic journal articles refer to it as a 'troubled discipline'. Let's be clear, business school students don't value strategy classes, demanding recruiters don't value what their MBA hires have learned about it, the big consulting firms have



trawled the entire field for powerful ideas and found virtually nothing of any use, and most senior executives do not use its methods. I have suggested, on the academic strategy discussion lists – so far without being challenged – that this is due to two fundamental problems with the research in this field.

First, we have spent over 40 years asking the wrong question: Why are some firms more profitable than others, for example in terms of return on assets? We have known for at least that long that investors value growth in cash flow. Profitability does not need to be superior, merely adequate, and successful companies are less profitable than they could be, precisely because they are spending in order to increase future cash flows.

Second, we have given far too much attention to searching for some unique 'position' where a company can enjoy some advantage. Successful companies focus on what they have proved to work

and push it forward relentlessly. They may extend its scope, but they do not keep changing the essence of what they do. What we should have been asking is how the continuous stream of decisions, choices and investments made by management can deliver sustained strong performance from month to month, quarter to quarter and year to year.

So where is the field going right now? Nowhere useful that I can see. Where should it be going? Our first aim should be a basic set of practices that work reliably, as would be normal in any other professional discipline. To achieve that, we need to take an axe to the ambiguous, abstract and meaningless terminology that infests the field and lay down some well-defined terms for observable, measurable phenomena and specify objective causal relationships between those items. We can be as creative as we like on top of that firm foundation, but without it, strategy is built on sand. ■

CURRICULUM VITAE

- Five years commercial planning and consulting in oil and petrochemicals, followed by three years strategic planning in the beer industry.
- Five years as retail strategy director for Whitbread PLC during its domination of restaurant and leisure sectors.
- Fifteen years as strategy lecturer at London Business School.
- Currently developer and author of strategy dynamics textbooks and learning materials used in business schools worldwide.

Strategy Dynamics: the essential principles

Strategy dynamics starts with a focus on the key challenge for management: how to deliver sustained strong improvements in performance.

In corporate cases, this concerns the growth in cash flow that investors value, although this in turn requires other measures to be strong, especially those of concern to employees, customers and other stakeholders. In non-business cases – largely neglected by mainstream strategy – performance concerns sustained and strong progress towards non-financial objectives. Next come three fundamental principles. Each sounds obvious on its own, but they combine into an inescapable explanation for how any organisation functions and delivers performance.

1 Performance at any moment reflects the quantities of simple, tangible resources – customer-driven sales, staff and capacity drive costs and so on.

2 These resources are strictly defined by a fundamental property they all share – their scale at any given moment is the sum of every gain or loss throughout the organisation's history. The number of customers today is not explained by anything else such as prices, marketing spend or competition – it is precisely the sum of every customer ever won, minus every customer ever lost. This simple principle has huge implications. For example, correlation methods can never explain a resource's current value and if correlation tells you nothing about customer numbers, then

it cannot explain anything that depends on that number, such as sales, market share or profits.

3 The rate at which resources are built or lost depends on those already in place. A stronger product range drives growth and retention of customers. This is why it is so hard for competitors to beat strong companies, unless these leaders lose their way.

Putting all this together creates a detailed picture of how the business system works – why one approach can deliver performance orders of magnitude stronger than another. It is then easy to add analyses of how competition works, how intangibles like reputation help and what exactly capabilities are and how they are built.

■ For more information about the online course on this subject, see the Strategy Dynamics website: www.strategydynamics.com. To claim your discount please login to the members' area of the SPS website for a discount code.